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**Section I**  
**International Affairs**



## The Incompatibility Triangle

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### Abstract

*Launch of the euro in the late 90s, can be interpreted as a first step towards the monetary system outlined by Mundell. Economists have noted the incompatibility of fixed exchange regime, perfect mobility of capital and the independence of monetary policy, the so-called triangle of incompatibility, which was highlighted by Robert Mundell since 1968. Tommaso Padoa - Schioppa continued his research on the harmonization and convergence required to economic policies in “Financial Europe”. The author shows that the triangle is the freedom of movement of capital, the exchange rate stability and the autonomy of national monetary policies. The triangle of incompatibility stems from the fact that they can be combined in their entirety, but only two. The autonomy of monetary policy is the freedom of states to choose the appropriate monetary policy and take appropriate measures in case of recessions.*

**Keywords:** incompatibility triangle, optimum currency area, free movement of capital, exchange rate stability, monetary policy autonomy

**JEL Classification:** E42, E44, E52, F38, F43.

### Introduction

A short article published by Robert Mundell in 1961 on the subject of optimum currency areas, will guide long debate over economic policy, namely the exchange regimes (Mundell, R., 1968). The launch of the euro in the late 90s, can be interpreted as a first step towards the monetary system Mundell outlined by more than half a century ago.

A state get a higher profit where there is a highly integrated economic area (Copeland, L., 2008, p. 603-608).

The degree of economic integration may be assessed by reference to commodity markets, specifically the expansion of trade between the integrated members and the market integration, where labor and capital can migrate between the integrated members.

### 1. Brief history of trade relations of the EU Members

In January 1999, most Member States of the European Union exported between 10-20% of their production to other members of the European Union. The export volume was much higher than that of foreign trade relations between the European Union and the United States, but lower than the exports of federal states that make up the United States of America.

When we relate trade to GDP as a factor of integration of commodity markets, we see that the member states of the European Union's strategy is superior to the exchange rate dollar / euro. However, the volume expansion of the trade between the member states did not provide assurance that the EU is an optimum currency area. Thus, if for electronic products there has been found a convergence of the prices of the member states of the European Union, for the cars there was a significant difference. If in 1990 the prices were different, the changeover has not diminished since 1999 and has not shown differences in price convergence.

The evolution of the volume of trade between EU countries has been fluctuating since 1980, but had a sharp rise later EMU, which shows that it has significantly increased the trade relations between the member states.

## **2. Interregional trade between the federal states of the US and the trade of the EU member States**

The interregional trade in the United States is more developed than that of EU member states, but we have to consider the evolution of the latter in the future years, as the integration process continues.

Experts have estimated that through the launch of the euro, the volume of trade between EU countries will increase three times more than that of the member states. Subsequently, the forecasts became more pessimistic in the sense that it has been contemplated that this growth will be 9%, taking into account the effects that the euro has produced in the first year of release. Meanwhile, in Britain, Denmark and Sweden, countries that have not joined the eurozone, the volume of trade with the euro area increased by 7%. Given the evolution of prices and trade volumes, it was found that at the moment the euro does not contribute substantially to the amount of the trade in the euro area.

Labour mobility in Europe has not been extended, differences in language and culture discouraged mobility between European countries at a real expansion compared with that of the federal states of the USA. In this regard, Professor Barry Eichengreen of the University of California - Berkeley found that differences between immobility rates are lower and less pronounced in the United States than immobility rates between EU states. In European countries, the rate of immobility of labor is lower because of government policies as well. One example is that the demand for labor in certain states can not be adequately covered because potential employees experience difficulties of distance between their residence and the potential employment, and also because of the lack of funds which could allow them to travel and be hired in other states. Labor mobility rate was 1.7% in the UK, 1.1% in Germany and 0.5% in Italy, compared with the United States, it was 3.1% (Huber, P., 2004, p. 619-624).

## **3. The first effects of the emergence of the euro**

The first decade of the euro was characterized by different economic performances of the member states of the European Union. The European Central Bank's monetary policy has failed to reduce the disparities between states. A negative effect was the divergence of inflation rates which had two consequences. The first was intrinsically linked to the euro and long-term policies in exchange rates, high inflation in Ireland and Southern Europe (Portugal, Italy, Spain and Greece). To reach the level of Germany, economic growth and lower inflation had to be stimulated. The second consequence was that the real exchange rate of these countries must remain fixed at 1, due to the current exchange rate. Greece's deficit was 14.6%, Spain's deficit was 1%, in contrast to Germany, which managed to reduce material costs.

The euro area deficit was due mainly to the fact that the countries of the south of the continent are poorer than the north - eastern Europe, which have made rapid progress in raising living standards. Ballasa - Samuelson theory suggests that only by increasing labor productivity the gaps between the member states of the European Union may decrease.

A key element is to minimize disruptions through economies similar in structure, especially the types of goods produced. Eurozone members don't have a similar products' structure, as the sheer volume of foreign trade in Europe highlights. There are still large differences between the member states, the countries of northern Europe with more capital and better quality goods than in southern continent and the goods of the north have a sales volume superior to the other. It can not be determined yet if a single European market contributes to reducing disparities between countries in this regard or will lead to a regional specialization.

An important aspect is fiscal federalism. The euro area must be evaluated and based on the ability to transfer economic resources from members with healthy economy to those who suffer in terms of economic indicators. In the United States, countries with a lower economic level receive

aid from Washington to increase federal return and transfer of monetary resources, with the resources fees paid by other states. This fiscal federalism can ensure economic stability through fixed exchange rates. The European Union the limited power of fees does not allow a fiscal federalism more than to a small extent.

#### **4. Optimum currency area**

Optimal currency area (O.C.A.), according to the balance, can be appreciated that shows a small increase compared to previous economic development of the European Union. However, the financial markets mentioned above have become more integrated as a result of the euro in the EU trade. While the capital movements have increased, labor movements are not significant and by their migration malfunction may occur. Because the revenues from labor constitutes about 2/3 of the European Union P.I.B and the effects of unemployment are severe, the lack of labor mobility can produce negative effects for the member states.

Monetary union due to conflicting economic performance suggests that euro zone countries may be subject to asymmetric shocks. Combining rapid movement of the capital with the slow movement of labor, can generate higher production costs and causes shocks without changing exchange rates. A notable example of this is the Netherlands, given that only a small number of skilled workers migrate. Considering that labor is almost immobile in Europe, the success of EU liberalization of capital movements could worsen the economic stability, with negative consequences for the monetary union. A significant example is "the theory of the second best", involving liberalization of markets, "the capital market", which reduces the efficiency of the European Union if other market economies, "the labor market", continues to operate under normal parameters.

Mundell's article proposes a method for defining optimal monetary borders. Thus, two countries have an interest to join the coins if simply, earnings or benefits outweigh the costs. The loss of monetary instrument is considered more costly if the country supports many specific shocks and does not have alternative means of adjustment. Mundell focuses on the mobility of factors, mainly that of labor; They were subsequently added to the price and wage flexibility, the existence of a federal budget and capital mobility.

If we look only in terms of costs, the conclusion is that "money is a comfort that constrains to an optimal number of currencies".

Monetary unification eliminates transaction costs, representing an arbitrage between losses arising from the retirement of a stabilization instrument and the gains resulting from the decrease of the transaction costs. A greater degree of integration reduces losses since, based on specialization, increases the symmetry of shocks born by countries that make up the union and the trade between the participants will become more intense (Krugman, P., 1993).

#### **5. The European monetary unification**

Since the 70s, Mundell has incessantly ruled in favor of the unification of European monetary , to the point that today is rightly considered "the spiritual father of the euro".

However, the opponents of the single currency have prepared very critical arguments based on his article of 1961. The provisional refusal of the British government led by Gordon Brown, dated 9 June 2003 examination was based on five criteria, mostly inspired by the theory of optimum currency areas.

The five criteria put forward by the British government refer to:

- the convergence of the British economy - the economic cycle should be close to that of the euro area;
- the flexibility of factors;
- the impact on the investments in the United Kingdom;
- the impact on the growth and employment levels of the workforce;
- the impact on the City financial center.

The first three criteria are directly inspired by the theory of optimum currency areas.

Instead, as we have shown, the five Maastricht criteria used by the Union to accept new members, make no reference to this theory. They refer to public finances (deficit and debt), inflation rates, interest rates and long-term participation in S.M.E.-bis without realignment, for at least two years. The provisional refusal arguments put forward by Prime Ministers Tony Blair and Gordon Brown do not refer to any of these criteria.

Studies on the application of the O.C.A. theory proved to be more compelling from the point of view of cost, than from the point of view of advantages. Analyses carried out in the academia (Bayoumi, Eichengreen, Blanchard et al) conclude that the loss of monetary instrument could be costly for Europeans, except around the core countries around Germany, which present the same degree of symmetry shocks as of the Americas region. Other studies emphasize the role of reduced mobility of labor in Europe in response to asymmetric shocks, unlike the considerable role held by the labor mobility in the United States (Blanchard, Katz, Eichengreen, Obstfeld et al). Later on other devoted supporters joined: Romano Prodi, Tommaso Padoa - Schioppa, Mario Draghi, etc.

Concerning the impact on trade, the first studies were little convincing. Since 2000, Andrew Rose has published estimates showing that the euro could increase three times the volume of the intra-zone trade.

Applying the O.C.A. theory proved to be more convincing in terms of costs than in terms of advantages, since it is difficult to quantify the benefits, usually of microeconomic nature, which are generally diffused; instead, the costs can be detected using macro econometric techniques. This situation continues to represent a handicap for euro supporters who at 50 years of Mundell's article, not yet been able to estimate the benefits more accurately. However, Ronald Mc Kinon (2000), talking about the "paradox of Mundell" and his pro - euro belief and his article in 1961, which served the full interests of anti-euro side, remembers that Mundell published two lesser-known articles in the '70s. These two articles focus on two major advantages of the single currency.

The impact of asymmetric shocks is mitigated by diversifying their portfolios, diversification facilitated on the integrated financial market and the single currency will end speculative attacks, which prevent the application of medium- and long-term policies. The argument "speculation" plays an important role in Mundell's conviction in favor of the euro. In his dialogue with Friedman, Mundell states that "as soon as the area coins were handcuffed by the euro, even before the release notes and metal parts, speculative capital movements belong to the past now. Thus, the uncertainties on the exchange rate and destabilizing movements have been put to an end".

## **6. The incompatibility triangle**

The literature option on the trade regime has been treated separately from speculative attacks (Crispedia.ro.). Since the 90s economists have noted the incompatibility of fixed exchange regime, perfect mobility of capital and the independence of monetary policy, the so-called triangle of incompatibility, which was highlighted by Mundell since 1968.

Tommaso Padoa - Schioppa continued Robert Mundell's research regarding the "triangle of incompatibility" theorem in the chapter "The harmonization and convergence required to the economic policies in Financial Europe". The author shows that the triangle means the freedom of movement of capital, the exchange rate stability and the autonomy of national monetary policies. Triangle incompatibility stems from the fact that they can be combined in their entirety, but only two. Thus, the freedom of the movement of capital requires giving up the national monetary policy autonomy, when it envisages stabilizing the exchange rate. The ideal situation were if the three elements that make up the triangle of incompatibility would combine, but it is impossible, given the previous facts presented by Tommaso Padoa - Schioppa.

The incompatibility of those three elements has been the subject of other notorious economists' study (Eiteman D., Stonehill A., Moffett M., 2011, p. 69-70).

According to the authors, the exchange rate stability is assessed based on the exchange rates of other currencies of reference. Investors should be reassured of the exchange rate stability both now and in the near future.

As regards the freedom of the movement of capital, it consists in accepting free monetary float, so that investors can exchange currencies depending on their interests under the terms agreed by them.

The autonomy of monetary policy is the freedom of states to choose appropriate monetary policy and take appropriate measures when recessions.

This triangle is incompatible because states must give up one of the objectives described: monetary independence, exchange rate stability and freedom of movement of capital because the three objectives can not be met simultaneously.

A country with autonomy of monetary policy can have freedom of movement of capital to foreign capital markets, but can not have a stable exchange rate, as the United States of America. As regarding Malaysia, the exchange rate is stable, the monetary policy is autonomous, but the freedom of the movement of capital is not possible.

Specialists appreciate the decisive role of capital mobility, and the consequence is the option of many countries for freedom of movement of capital.

States must study world economic developments and establish the goal that they would give up by choosing the optimal strategy according to economic conditions.

In recent years, the increases and disorders of the capital markets have led many states to investigate the freedom of movement of capital, given the fact that the mobility of capital is decisive in relation to the autonomy of monetary policy.

USA opted for pure floating, while the European Union has chosen monetary union.

After 2000, the publications which have referred to the choice of exchange regime took into account the costs of exchange rate instability, if pure floating regime. Since the 60s when experience was limited pushups and monetary unification projects were at the beginning, works of Mundell have allowed an optimum and viable monetary system, structured on a small number of floating currencies, each covering a relatively large area in which labor and capital are mobile. Creation of the euro was the initial step in this direction.

Currently no one can say with certainty whether geographical areas such as South-East Asia, South America and North America will know one day the same process of monetary unification, because for the international monetary system time is measured more in decades than over the years.

## Conclusion

Given that the three objectives of the "triangle of incompatibility" can not be fulfilled simultaneously, governments of the countries of the world must take into account the economic and social conditions of those countries, so as to establish the most appropriate economic strategy, taking into account that objectives covered in this study can not be compatible than two.

In this context, Romania, as an EU member, has its economic strategy based on consistency between the exchange rate stability and the monetary policy autonomy. It must be underlined that according to the changing conjuncture of capital markets, governments of the members adapt business strategy to the new circumstances, given the complexity of international trade that the world's countries are involved into and the legislation governing trade relations, taking into account the continuous changing conditions in which they operate.

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## The International Macro-Environment of an Organization

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### Abstract

*The international macro-environment (supranational macro-environment) brings together all the uncontrollable factors with a global impact, and it is related to the organization's indirect relationships on international markets. Romania's globalization and the EU integration increased the importance of the macro-environment for all organizations, regardless of their degree of internationalization. In marketing, we must master the main agreements between countries and the regulations emanating from general international bodies, reflecting on their business, on different foreign markets. Knowledge of the international environment is possible only through an analysis of its components (Anastase, I., 2012, p.41).*

**Keywords:** macro-environment, environment, marketing, commercial, worldwide.

**JEL Classification:** H83

### 1. Introduction

International organizations are organizational forms related to the achievement, within an institutional framework, of the international cooperation in various fields: political, legal, economic, administrative, scientific, cultural etc. These organizations are established under the mutual agreement of parties and include: governmental parties, whose members are sovereign states (United Nations Organization and its specialized agencies); NGOs, whose members are economic organizations or individuals; mixed bodies, including both states and organizations or individuals; regional bodies, focusing on the economic relations from a specific area (Anastase, I., 2012, p.41).

### 2. The international environment of an organization

In this section, we will briefly present the most representative international organizations.

**A. The United Nations**, established in 1945, is the most comprehensive international organization, which has a large number of specialized committees and maintains direct connections with a number of independent international bodies, relevant to the international marketing approach. The most significant specialized bodies are in direct connection with the UN. These are: the International Monetary Fund, the World Bank.

**B. The International Monetary Fund** is an international organization for cooperation in the currency and financial fields; it is part of the system of the UN specialized bodies. It was created by the agreements of the United Nations Monetary and Financial Conference, held in Bretton Woods, in July 1944, and it began operating on 31 December 1945. Its purpose is to supervise the application of the international monetary system and to grant credits in order to balance temporary deficits in the balance of payments. Each Member State may receive a credit of up to 125% of its interest in the fund. The IMF facilitates the balanced development of international trade and supports the reforms in developing countries, under "stand - by" agreements, granting the right to

use its resources outside the reserve tranche, under certain conditions (promoting monetary, foreign exchange and macro-stabilization policies that remove the malfunctions underlying the demand for the use of IMF resources). The IMF, based in Washington, D.C., has 183 member countries (2000) and it provides short-term liquidity. Romania became a member of this body on 15 December 1972.

**C. The International Bank for Reconstruction and Development (IBRD)**, established under the Bretton Woods Agreements (1944), supports national sectoral policies by providing or guaranteeing loans to finance reconstruction and development projects. Together with the International Organization for Development (IOD) and the International Finance Corporation (IFC), it forms the World Bank Group. Since the IBRD is the most representative institution of the World Bank Group, it is often called the World Bank (WB). The WB grants long-term loans for economic development. The IBRD, based in Washington, D.C., has 182 members (2000). Romania joined it in 1972.

**D. The WTO (World Trade Organization)** resulted from the conversion in a worldwide multilateral trade forum, in 1994, following the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). The WTO is an independent international organization outside the UN system, which is connected to it and to other international institutions. The WTO seeks to implement measures in order to liberalize the international trade in goods, services and industrial and intellectual property rights; it also deals with the conduct of a new round of negotiations for multilateral arrangements on trade and with trade issues related to investment flows. Another concern is related to the implementation of the members' commitments and management of dispute settlement mechanisms and trade policy review. It appears that the WTO has an action area much wider than the GATT. In 2001, the WTO had 142 members, which held 90% of the world trade (Crouse, Ch., 1993, p.35). Romania became party to the GATT and the WTO in 1971, and it participates in all the actions initiated under the aegis of this international economic body for the liberalization of global trade.

**E. The United Nations Conference on Trade and Development (UNCTAD)** is an international economic organization established on 30 December 1964 by the UN General Assembly, following the principles set out in the United Nations Conference on Trade and Development (March-June 1964). The main objectives of the UNCTAD are (Kotler, Ph. Dubois, B, 1992, p.92):

1. Facilitating the expansion of international trade, particularly the trade changes of developing countries, in order to accelerate their overall economic growth;
2. Drafting principles and recommendations for the development of trade between all countries;
3. Ensuring the coordination of the activities of other institutions within the United Nations system of international trade and economic development;
4. Taking, together with other competent bodies of the United Nations Organization, appropriate measures for the negotiation, adoption and operation of multilateral legal instruments, in the field of trade, between states;
5. Harmonizing the policies of governments and regional groupings in foreign trade and economic development (Anastase, I., 2012, p.42).

The UNCTAD has a greater influence over the company than the WTO. Its members (191 countries) are all UN Member States or one of its specialized agencies.

**F. The Organization for Economic Cooperation and Development (OCDE)** represents a group of states, the most important in economic terms, established on 09.30.1961, in the former European Economic Cooperation Organizations.

OCDE is an autonomous international organization, aiming at:

- achieving a great economic expansion, a high level of workforce employment and increasing the quality of life in the member states, under a stable financial situation;
- achieving a healthy economic development in member and non-member countries;
- enhancing world trade on a multilateral and non-discriminatory basis, in accordance with international obligations;
- shaping the opinion of member countries, on the market of other world countries;
- preparing the meetings of the "Group of 7" (the most developed countries of the world).

**G. The United Nations Food and Agriculture Organization (FAO)** is a specialized part of the

United Nations system, established in October 1945, with headquarters in Rome (Italy).

The main FAO objectives are:

- increasing nutrition and improving the living conditions of the populations of Member States;
- improving the production and distribution of food and agricultural products;
- supporting rural populations, in order to improve the food level.

Achieving these goals is possible through the technical and financial assistance granted by FAO to its members.

**H. The International Organization for Standardization (ISO)** aims at developing international uniform standards for products/services. In this regard, a reference point in international standardization efforts is the adoption by the UE of ISO 9000 standards.

The objectives of international standardization are:

- favoring the achievement of products of adequate quality in terms of acceptable prices;
- providing a framework for the protection of life, health and environment, diminishing the products with negative ecological, sanitary and genetic impact;
- increasing the compatibility and interchangeability of products/services;
- simplifying products in order to use them better;
- ensuring the optimum range of sizes, thereby reducing costs;
- increasing efficiency and facilitating the distribution of maintenance activities in using products (Anastase, .I, 2012, p.43).

Within the international standardization process, in addition to the ISO, there are also the International Electrotechnical Commission (IEC) and the International Telecommunication Union (ITU).

From the perspective of those presented above, the marketer considers that the knowledge of the international organizational environment is important for the following reasons:

The IM specialist must consider the image of the country (countries) which constitute the target market(s) – from the perspective of international organizations:

- it is accepted in international bodies;
- it is not accepted; why?

The WTO provides information on reducing import duties on industrial goods and agricultural products, export liberalization for some products, rules of conduct in international trade, particularly those relating to unfair competition practices;

- the marketer will determine whether the WTO regulations and recommendations refer to the range of products that it manages, hindering or favoring their entrance on a foreign market;
- the IM specialist has to be acquainted with the UNCTAD resolutions, if the business that he/she carries out is subject thereto;
- the ISO provides the information that the marketer needs in order to standardize the networking level with the national and international company.

### **3. The International Business Environment**

In the structure of the international business environment, we meet two basic components:

- • International trade;
- • Trade policies.

**A. The International Trade (IT)** is a constant of the relationships between nations, referring to the trade in goods and services on the international market. It had an upward trend, especially in the postwar period, when it experienced significant quantitative and qualitative transformations. Thus, the growth of international trade has outpaced the increase in the GNP, the GDP and in world production.

The international trade has a powerful dynamic and versatile nature. The main changes that occurred in the international trade, in recent years, are (Kotler, Ph.1997, p. 203):

- internationalization of the world economy, reflected in the rapid growth of international trade and investment;
- gradual loss of the US dominance and competitiveness on world markets, while increasing the economic strength of Japan and of various countries from the Far East;



- increase in the economic power of determined regional blocks and, in particular, of the European Union;
- increase in the influence of the global brands of cars, food, electrical products and other categories of goods;
- setting entry barriers to protect domestic markets against foreign competition;
- gradual opening of new important markets, like Eastern Europe, China, Arab countries;
- suffering caused by serious problems due to the external debt of various countries (Mexico, Brazil), while increasing the fragility of the international financial system;
- increase in the trade exchange share of international operations;
- increase in the privatization trend of public enterprises, in order to make them more effective;
- growing tendency of forming alliances between major companies from different countries (General Motors and Toyota, G.T.E. and Fujitsu);
- strong acceleration of international transport, communications and financial transactions (Anastase, 2012, p.44).

These IT changes generated international marketing development and provided a fertile field for its specific implementation techniques.

**B. The trade policy** refers to a set of rules (with legal, administrative, fiscal, banking etc. nature) and tools, mechanisms, institutions adapted/created in order to restrain or promote the trade with other countries and to redefine trade balances.

Protectionism seeks to protect the economy from foreign competition and reduce losses from trading activities. The causes of protectionism are multiple and can be grouped as follows (Cateora, Ph., Graham, J.L.1999, p.68):

- protect the internal market;
- protect young branches;
- necessity of keeping money in the country;
- encourage capital accumulation;
- maintain the living standard and the real wages;
- conservation of natural resources;
- industrialization in low-income countries;
- maintaining employment and reducing unemployment;
- national defense;
- increasing the size of business;
- retaliation and advantageous transactions.

It appears that the basis for explaining protectionism is represented by economic (protection of young branches, industrialization of developing countries) and non-economic causes (employment protection), but also by non-arguments (exploiting comparative advantages, sanctioning the economic actors' behavior in other countries). In terms of sustainable development, the conservation of natural resources becomes critical.

Protectionist policies use customs policy instruments (tariffs, customs laws, customs codes, customs regulations) and non-tariff barriers (import quotas, export licenses, voluntary export restrictions, monetary barriers etc.). Protectionism diminishes the benefits of international trade. Therefore, the GATT/WTO regulations highlight the abolition of protectionist causes, in order to increase the overall share of international trade liberalism.

Liberalism aims at a restrictive international trade without barriers; it also aims at promoting intense exports and stimulating them. This is possible because, due to technical progress, the barriers of communication and transport disappeared. The promotional measures aim at informing and influencing real active external clients, in order to purchase certain products. These measures include (Crouse, Ch.1993, p. 98):

- improving the general climate, where business transactions are conducted, by negotiating and concluding trade and payments, economic cooperation agreements or other intergovernmental arrangements;
- supporting actors to participate in international fairs and exhibitions;
- modernizing and optimizing the commercial representation abroad;
- providing services in the field of advertising and public relations.

The export incentive measures aimed at increasing the competitiveness of exported goods and also at increasing the incentives for both producers and intermediaries. This category of measures includes (Crouse, Ch.1993, p.54):

- budgetary measures (direct export subsidies, direct export premiums and various forms of indirect subsidy);
- tax measures (exemption, reduction or deferral of taxes on foreign transactions, conditional exemption from customs duty or refund of customs duties levied on imports under specified conditions);
- financial and banking measures (supplier credits, buyer credits, lines of credit, export credit guarantees or insurance);
- measures relating to foreign exchange (forex or support bonuses for currency depreciation at a rate higher than the depreciation of the purchasing power of the domestic currency).

The policy of economic liberalism is supported substantially by international economic integration. The marketer must be acquainted with the dynamism and change in international trade and with the trade policies pursued by the countries that will constitute target markets.

#### 4. The international integration media

Economic integration is a feature of the contemporary world market. Depending on the degree of economic integration, there are distinguished five forms of international integration:

- FTA;
- customs union;
- common market;
- economic and monetary union;
- political union (see, for example Table 1)

Table 1. Forms of economic integration

Integration form	Characteristics					Examples
	Abolition of Internal customs duties	Common customs duties	Free movement of production factors	Common market. Harmonization of economic policies	Political integration	
FTA	Yes	-	-	-	-	- Central European Free Trade Agreement (CEFTA) - North American Free Trade Association (NAFTA) - Association of South East Asian Free Trade Agreement (ASEAN)
Customs union	Yes	Yes	-	-	-	- European Free Trade Association (EFTA) - Economic Community of Central African States (ECCAS)
Common market	Yes	Yes	Yes	-	-	- South American Common Market (MERCOSUR) - Arab Common Market
Economic and monetary union	Yes	Yes	Yes	Yes	-	- European Union (EU)
Political union	Yes	Yes	Yes	Yes	Yes	- perspective and purpose of international economic integration

Source: Forms of economic integration; source: CEFTA

The integration environment, briefly presented above, offers opportunities for developing international marketing. Thus, the integration structures allow companies the access to much larger markets (mass markets), with reduced or excluded tariffs. Thus, international organizations are able to achieve scale economies not only in manufacturing but also in distribution and promotion. There is an increase in the efficiency of the international marketing approach. In addition, the integration environment generates intense international competition; economic organizations become stronger and more experienced in negotiating with large groups of countries. It intensifies the mergers between companies from the EU countries and from other non-member countries, in production, distribution, banking (Chee, H., Harris, R.1998, p.103). These mergers allow a competitive balance in relation to Japanese and North American companies and banks.

## 5. The International Legal Environment

The equation of the international legal environment includes three variables: international laws; regional laws; domestic laws for each market organization. The international and regional laws take the form of a collection of treaties (GATT - the most comprehensive global treaty), agreements (CEFTA) and conventions (Convention for the Protection of Intellectual Property) among nations. These legal instruments have more or less the force of laws, because there is no comprehensive international legal system. The World Trade Organization (WTO), presented above, is the broadest legal institutional framework for the development of world trade.

## 6. The international political environment

The multilateral agreements between the governments of different countries may have a positive or negative impact on business and international marketing. The international political factor must be assessed taking into account three categories of relations (Chee, H., Harris, R.1998, p.78):

- The business relationships with the country of origin;
- The host country's relationships with other nations;
- The relationships concerning a country's participation in international organizations.

## 7. Conclusion

In conclusion, the analysis of market globalization triggers two aspects of the supranational macro-environment (Munteanu, V. A., Rotariu, D.2006, p 130): forces that generate global standardization and local forces militating for the adaptation to local circumstances. In addition, we mention that the macro-environment includes the entire world or the regional factors influencing the market, often beyond the economic space, overlapping the political one or going in the technological sphere. This environment provides more homogeneous support structures, forming national market environments (Crouse, Ch.1993, p.123].

\* GATT was established in 1947 (23 signatory states) and pursued the indiscriminate liberalization and promotion of international trade, particularly in material goods. Liberalization was achieved through regular trade rounds or negotiations. It contributed to the reduction of trade tariffs (in 1947, there were 40%; in 1990, they decreased to 5% (*Dicționar explicativ de marketing*, 2003), reducing qualitative barriers and discouraging government subsidies.

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# Intercultural Management and the Importance of the Culture

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## Abstract

*Due to the existence of a strong corporate globalization, intercultural management has gained increasing interest in recent decades. Communication between people of different cultures requires not only words, but also the transmission of norms and values, which are not always understood by the dialogue partner. Managers should be alert not only to the language, but also to the different attitudes, behavior related to different cultures and traditions.*

*Effective handling of the cross-cultural interface is a critical source of a firm's competitive advantage. Managers need to develop not only empathy and tolerance toward cultural differences, but also acquire a sufficient degree of factual knowledge about the beliefs and values of foreign counterparts.*

*In this paper we will highlight the main components of the culture (especially religion), that influence the intercultural management.*

**Key words:** management, culture, religion

**J.E.L. classification:** M14

## 1. Introduction

Intercultural management can be described as a combination of knowledge, insights and skills that are necessary for the right approach of national or regional cultures and of differences between cultures, at different levels of management. It is an integral part of international management.

The purpose of this paper is to understand the role of intercultural management: to facilitate a successful solution of problems by providing the most appropriate managerial approaches necessary for effective international action, taking into account the cultural specificities.

Cross-cultural management encompasses studies from a variety of research literatures, including comparative management, cross-cultural management, international management and cross-cultural psychology of organizational behaviour. The functionalist group of studies are the most prolific in cross-cultural management. In the functionalist approach, culture is seen as offering answers to the basic needs that human beings have to fulfil and this is the foundation for what are known as cultural dimensions. The functionalist approach influenced seminal contributions by Hofstede (1996) and by Schwartz (1994), the works by Maznevski et al.(2002), as well as by the GLOBE (Global Leadership and Organizational Behavior Effectiveness) research project (House et al., 2004).

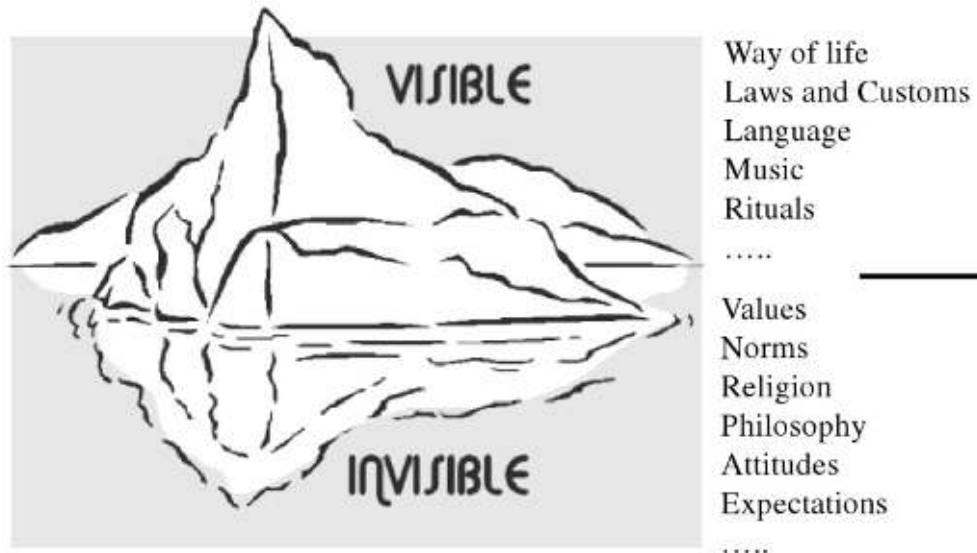
The importance of this topic is underlined by the interest shown by the European Union, by declaring 2008 as the "European Year of Intercultural Dialogue" (ECOTEC, 2009). The aim of this initiative was to promote dialogue between cultures, supporting European citizens in addressing a cultural environment more complex. This initiative aimed to promote, especially among young people, the importance of developing active European citizenship, which respects cultural diversity and common values.

## 2. Definition of Culture

The term "culture" comes from the Latin „culture”, a derivative of colere: to grow. Above its literal agricultural meaning, ancient authors (like Cicero) also used the word metaphorically -

"Cultivation of mind". In the Middle Ages, in the context of the emphasis on religious experience rather than on human development, this meaning of the word has disappeared, more or less, only to return during the Renaissance. Then, metaphorical meaning was gradually replaced by agriculture meaning, as the dominant understanding of culture. Now, there are more than 200 different definitions for the term "culture". Iceberg model may help to better understand this term.

Image 1: Iceberg model of the culture



Source: Hall E.T., 1976

As can be seen in the image above, it has a visible part of an iceberg - culture has areas that we can see (music, clothing, dance, language, architecture, food, gestures, behavior, art, etc.); and an invisible part - including: religion, attitudes to life, in family behavior, motivations, tolerance to change, attitude to rules imposed, styles of communication, thinking, risk-taking.

For Lisa Hoecklin, culture is a system of great significance. Culture informs us on what constitutes the primary focus of individuals and shows us how the world is perceived. The author adds that, within a culture, there are common ways of understanding the events and behaviors, and ways that allow predicting how people will behave belonging to their group. For the author, it is a learning culture deriving from the social system and not from configuration or from genetic code. Therefore, culture is a collective phenomenon, sharing values and meanings (Hoecklin, L., 1995).

Geert Hofstede defines culture as a collective programming of the "mind", that allows distinguishing between a group or a class of people. Category of persons is implicit here as a nation. It is not directly accessible by observation, but is perceived through verbal and non-verbal expressions (Hofstede, G., 1996).

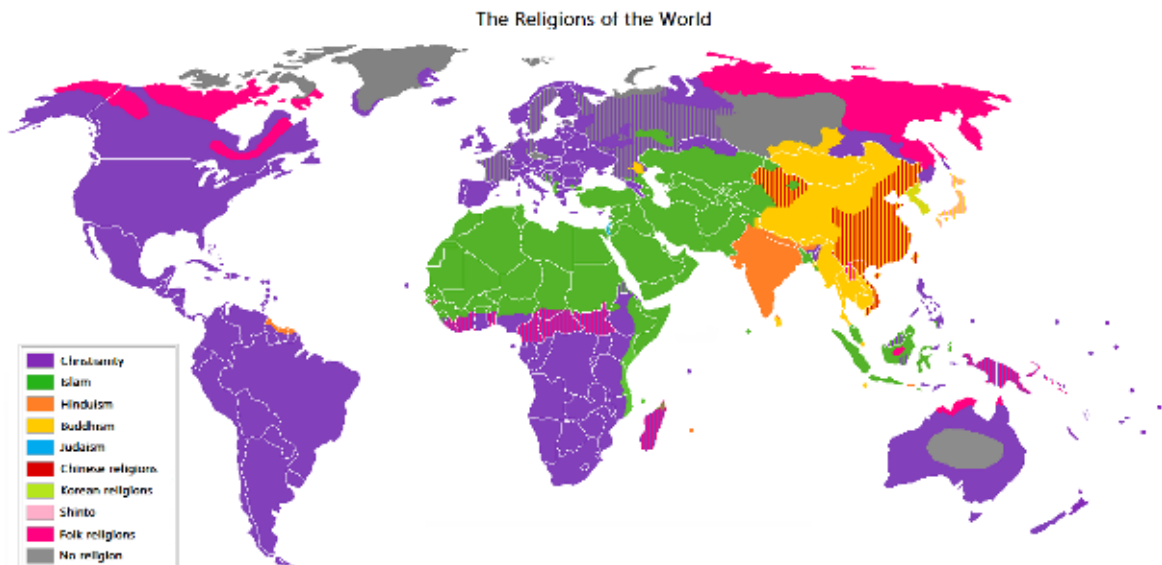
Culture relates to the fundamental belief of what a person should be and how it should interact with those who belong to his group or with the strangers. Education and professional experience allow transition to another phase of programming. Cultural programming of the individual will vary depending on the different phases, which are simultaneously influenced by the values and practices.

### 3. The components of culture

#### ***Religion***

Religion is often at the root of a strong sense of belonging cultural, historical and ethnic (see "The great Arab nation", China Confucius, Japan with its mixture of Shintoism and Buddhism specific). The persistence of religious issues and conflicts, that it generates, are rooted in the past and they nourish strong prejudices, even in companies considered to be advanced.

Image 2: Religions of the World



Source: [https://en.wikipedia.org/wiki/Major\\_religious\\_groups](https://en.wikipedia.org/wiki/Major_religious_groups)

Culture is derived from the social environment. People are not born with a shared set of values and attitudes. Children gradually acquire specific ways of thinking and behaving, as they are raised in a society. For example, in the United States, children usually acquire values of individualism and Christianity. But in China, children learn to depend on family members and acquire values based on Confucianism. Culture is passed from generation to generation—from parents, teachers, mentors, peers, and leaders (Cavusgil, S.T., 2007).

It is important to note that the perception of human differs from one culture to another. Thus, for Christians, from Genesis Bible to naturalism of Rousseau, the man is a person in itself, irrespective of social context in which he lives: worldview is founded on the existence of man, that pre-exist to the quality of his social being, and the agreement between these individuals creates social ties.

Contrariwise, many cultures called oriental (Asian, Arabic) consider that the individual is defined based on what context is specific: it is part of a whole, and without the existence of the whole, the individual does not exist. Social bond is the foundation of the agreement between the individual and the cosmos and, without this link, there would be nothing.

For the Intercultural Management, differences between religions are not interested in dogmatic sense, theological. But there are important differences induced by religious groups adhering to different religions, which bring the differences in attitudes, behaviors, or as a stand against the action. This is the reason why they have already identified cultural criteria of differentiation, relative to religion as a factor of cultural specificity. These criteria aim to mark the differences, considering the impact on economic activity, because, for the enterprise operating in different cultural areas, is important to know and to exploit them.

### ***Family***

Family plays an important role in what makes up a complete picture of the concept of culture, causing differences in approach of various aspects of economic and social life of a society or community.

For example, Scandinavian and Germanic systems presents family structure comparable to those found in Asia, especially in Japan and Korea. Unlike countries with a structure called the nuclear family, in which one can distinguish between individualistic and egalitarian behaviors members (as found in France, England, USA), their family system is sometimes authoritarian and inegalitarian. The reason of this situation is rooted in the structure of land ownership and agricultural productivity.

This authoritarian character stresses, from family - to the nation, the dependence on authority and compliance behaviors, passing through all forms of social organization. Inegalitarian character, due to the primacy given to the elderly, determines the group to accept inequality and hierarchy.

Extended family, which can be confused in some situations with a clan set up based on ethnicity, is the dominant value in many regions. It requires a strong solidarity, which could be detrimental in certain situations for entrepreneurship. But it can also turn into a factor of stability, if taken into account the ability.

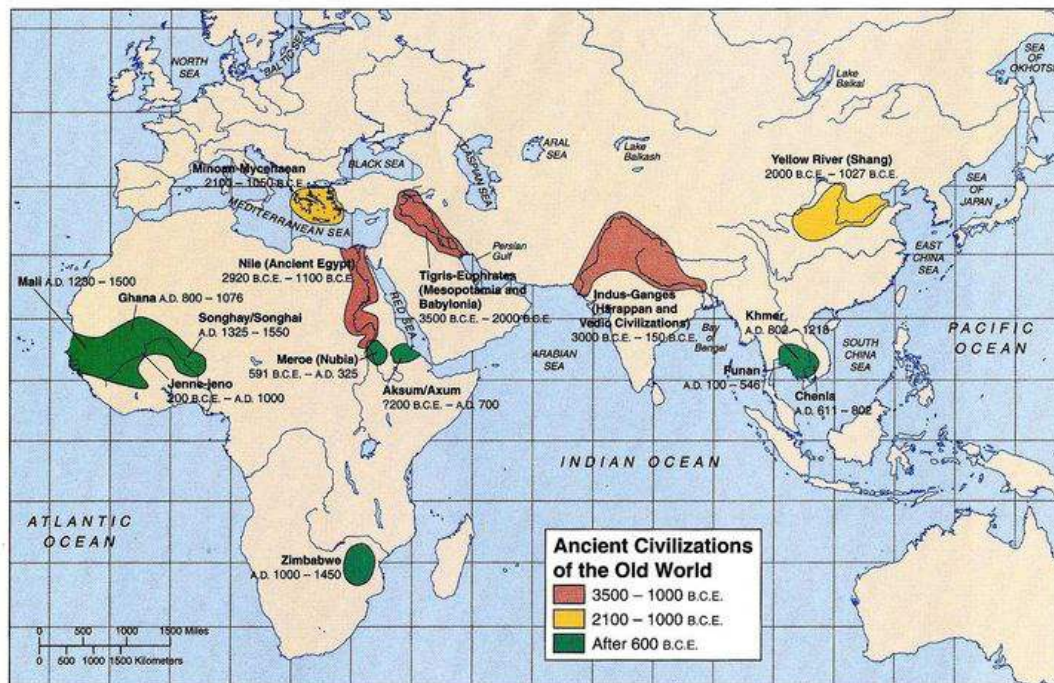
### *The history of a nation*

Many civilizations are much older than the European civilizations; the feeling of superiority of Westerners (Europeans and North Americans) does not date back only two or three centuries. This superiority may not be well regarded by the inhabitants of civilizations much older. For many of them, the Westerners are promoters of dangerous imperialist war and are the descendants of the Crusaders.

Thus, one of the oldest empires was China, with a continuous history of nearly 4,000 years. Another ancient empires were: Sumerian; Babylonian; Assyrian; Egyptian; Persian; Greek; Roman; Turkish; Aztec; Maya; Maurya, etc.

Image 3:

### Ancient Civilizations of the Old World



Source: <https://s-media-cache-ak0.pinimg.com/736x/6a/4f/20/6a4f20c7fce29edd801638b76aeb4e33.jpg>

### *Power relations within a community*

The feeling that the established order in a society is determined by the will of God is widespread in many countries: inequalities are therefore natural and they can be organized (see example castes in India) and, accordingly, discipline can and is accepted as the rule of the game. In the West, the chief imposes his authority and give strength and value to his views. In Japan and in most cases all over Asia, head rarely expressed verbally: he imposes his authority through its ability to express the views of the global group, whose leader is.

### 4. Conclusion

In the future, the number of business meetings with participants from different cultures will increase. Therefore, managers will need to be flexible and open, so that they can transit from one



cultural context to another one. The old ways of communication, negotiation, leadership and doing business are increasingly less effective.

Multi-cultural workforce is becoming the norm. To achieve organizational goals and avoid potential risks, the managers should be culturally sensitive and promote creativity and motivation through flexible leadership.

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## Culture and Traditions: Contemporary Criminological Factors

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### Abstract

*Culture is the most valuable asset of human society and an advanced and civilized society has a vast and varied culture. Culture includes various and different values and abstract and/or material entities, preserved with great care and transmitted from generation to generation. Nevertheless, whatever the historical period and the geographical area, culture should be in complete harmony and consistency with human rights and freedoms. It is outrageous to promote culture-based manifestations, inconsistent with human rights. It is inhumane to allow the practice under the so-called protection of traditions and rituals of barbaric, cruel, ruthless practices, devoid of any human foundation. Religion, as a part of culture, should not allow the practice of infamous habits, which humiliate and degrade the human being, causing intentional pain and physical suffering, extremely difficult to bear by the human being. From this perspective, culture, tradition or custom are undoubtedly a real criminogenic factor.*

**Key words:** culture, traditions, human rights, criminological factors, religion

**J.E.L. classification:** K3

### 1. Introduction

Trying to define the concept of culture is extremely bold. In the literature, anthropology respectively, there were given many definitions thereof, each complementing the other. Thus, in time, this definition became extremely complex and comprehensive, satisfying the most exacting demands in the matter. However, the most pertinent and eloquent among all seemed the one given by the Explanatory Dictionary of the Romanian Language, in 2009, according to which, culture means “all the material and spiritual values created by the humankind and the institutions necessary to communicate these values” (DEX, 2009).

From an etymological perspective, the word culture comes from the Latin word *colere*, which means to cultivate, to honor, referring, in general, to human activities. Unquestionably, this is a valuable asset of every human society, regardless of the geographical location or historical era. Culture is a very complex and abstract entity, being formed by a group values, symbols, concepts, ideas, traditions, events, experiences etc., preserved and transmitted from generation to generation, through various ways, either subjective or objective, verbally, orally or in writing (Cioclei, 2011, p. 144). A society’s degree of culture positions it on a certain stage of human civilization. Culture is a heterogeneous entity, consisting of elements of different nature, from art to traditions, from ideas to values.

As far as criminological research is concerned, we analyze the word “culture” in terms of what it contains and, not least, how it manifests in the outer world or within the human society. When it comes to culture and traditions, we automatically think at what is good, useful and beautiful for the whole society. Therefore, culture would be, at the first glance, totally antithetical to the crime.

Crime represents all the offenses committed within a certain time and in a particular territory, including those discovered and undiscovered (Amza, 2008, p. 24). Crime, in a criminological sense, means an act committed by the human being that violates the rule of law and brings damage, injury to the social values protected by the state. The most important values that a society defends are the state, the human being and the property. A society cannot exist without these social values or cannot develop without their effective legal protection.

In order to avoid conflicts, personal interests should be subordinated to the interests of the community; thus, the acts of disorder that would affect or disturb the society do not occur (Amza, 2008, p. 11). Within the society, the individual should harmonize with the social. On the one hand, people have rights and freedoms and, on the other hand, they have obligations. In order to achieve the rule of law, all these should be known, accepted and understood in their true human and social significance.

Therefore, which would be the connection between culture and crime? Why do we support, in certain situations, the idea that culture and traditions can be criminological factors? Why are they part of the social factors of crime?

## **2. Several considerations on the criminological theories of sociological nature**

Criminology, as an autonomous science that studies the quality and quantity of crime, includes numerous criminological theories relating to sociological criminal elements.

Studies have shown that the human being was, is and will be a social being (Amza, 2008, p. 11), i.e. by his/her genetic footprint and internal structure, the human being is not made to live isolated and alone, but in coexistence with his/her other peers. As a social animal, the human being has a social behavior, i.e. a way to manifest in the outer world, in relation to the other members of the society. For a good and peaceful coexistence, people have created rules and principles and, by their observance, they do not harm those around them. Thus, legal rules were born. These were based on the first form of religious and moral rules. Created by the ruling class, which was holding the power, these rules were, of course, sometimes arbitrary and discretionary, placing people in positions of inequality within their society, as they belonged to different social classes.

Among the criminological theories of sociological nature, which analyze certain social criminogenic practices, we mention the following: essentially culturalist theories that relate the individual personality to the culture where he/she develops (Stănoiu, 2003, p. 189). Thus, researchers analyzed the behavior of individuals belonging to different cultures and social mechanisms, respectively the individual's inability to adapt to the new rules imposed by a new culture, traditions and customs, the so-called reverse adaptation and negative socializing.

The theory of differential associations, developed by Edwin Sutherland, is a multi-factorial approach to crime, as part of the socio-cultural phenomenon. According to the above-mentioned author, the delinquent behavior is learned and mastered by communicating with others, in social groups (Stănoiu, 2003, p. 190). Delinquency occurs against the background of individuals' "inverse adaptation", i.e. they acquire norms and values opposed to those generally accepted (Doltu, 2000, p. 69). Thus, E. Sutherland discovers and identifies certain contemporary forms of crime, which are beyond the scope of criminal law. The French scholar Gabriel Tardre has a similar perspective; he developed the criminological theory of imitation, i.e. the human being becomes a delinquent by imitating, copying the behavior of other members of the community, driven by the desire to be accepted within the group (imitation driven by the desire of membership).

The theory conflicts of cultures, developed by the American criminologist Thorsten Sellin, supports the idea that a person's conduct, socially approved or even required in a given situation, is not accepted or appreciated in the same way by other social groups. This theory is based on ethnic, social, age, professional, religious differences, involving great discrepancies in rules and moral and/or social values. Thus, there are situations when the individual wishing to follow the rules of a group, based on cultural elements, inevitably violates the rules accepted by another social group. A cultural conflict occurs in these cases, as a criminogenic factor, sprang, most times, from traditions and from the education that individuals receive within their family or group. The cultural conflict is manifested by the fight between different moral values or norms of conduct, which are opposed or which strongly disagree.

The theory of social membership, developed by the American criminologist Travis Hirschi, in his work *Causes of Delinquency*, published in 1969, states that there is a social connection between the commission of illegal acts and the social environment to which the individual belongs. According to the author, the social connection includes commitment, respect and acceptance of goals, commitments and faith (Rădulescu, 2010, pp. 253-254 and Nistoreanu et al., 2000, p. 118). Thus, the individual is a person attached to another group of people, because the human being is a

social animal. The attachment to our parents is by far the most important and, based on it, we tend to imitate our parents' behavior, as we think that the education, respect and faith transmitted by our parents represent the absolute good.

The theory of the criminogenic society, developed by Jean Pinatel, borrows the idea of Etienne de Gref and Edwin Sutherland's theory and emphasizes the role of social learning of the criminal act, outlining solutions for individual treatment and recovery (Rădulescu, 2010, p. 254).

### **3. Culture and traditions as criminological factors. Case studies.**

Currently, there are cultures based on centuries-old traditions, ignoring and violating the human rights and freedoms, with extreme social consequences. Thus, under social pressure, by the so-called compliance of rules, regulations or traditions, people have committed inhumane acts against their fellows, since ancient times and until today.

The circumcision of girls in some African countries and beyond, the Sati ritual at Hindu widows and the honor crimes as a result of the failure to respect the traditions imposed by men are just some of the practices based on culture, which result in killing, mutilation or maiming innocent people, simply in the name of culture and traditions.

Regarding circumcision, etymologically, the word comes from the Latin term *circumcido*, which means to circumcise. Some encyclopedias consider this practice as a form of genital mutilation (Levinson and Gaccione, 1997), a surgery with risks such as infections, malfunctioning of sexual organs, bleeding, sexual dysfunction, infertility or even death. *Lato sensu*, circumcision may refer to the removal, on religious grounds, of a part of the sexual organ; thus, we may speak of male and female circumcision. In Western countries, female circumcision is either illegal or severely criticized, being a form of barbaric mutilation, motivated more by racism (Silverman, 2004, pp. 419-455).

Currently, the circumcision in women is seen more as a genital mutilation of sexual organs, and is defined by the World Health Organization as “the partial or complete removal of the external female genitalia or creating other damage to the female genital organs for non-medical reasons”. According to a UNICEF report in 2013, about 125 million women and girls in Africa and the Middle East were faced with this practice, most times totally against their will (UNICEF, 2013). According to the Inter-African Committee's position, the circumcision of girls and women is seen as a “harmful traditional practice”.

The circumcision in women and girls, regardless of how it is practiced (through partial or total removal of the female genitalia or even by sewing them), is recognized internationally as a serious barbaric and inhuman violation of rights of girls and women. This practice reflects gender inequality, being an extreme form of discrimination against women.

Unfortunately, female genital mutilation is still part of local cultural customs and rituals in different communities or countries in Africa and the Middle East. This practice continues to exist, including in places where it is prohibited by the national law. Due to globalization and immigration, this practice was widespread in countries such as Australia, Belgium, Canada, France, New Zealand, the USA and the UK.

According to a recent report by UNICEF, countries where women are most often exposed to genital mutilation include Somalia (98%), Guinea (96%), Djibouti (93%), Egypt (91%), Eritrea (89%), Mali (89%), Sierra Leone (88%), Sudan (88%), Gambia (76%), Burkina Faso (76%), Ethiopia (74%), Mauritania (69%), Liberia (66%) and Guinea-Bissau (50%).

The Sati ritual, practiced in parts of India, Egypt and Greece, is the name given to the widow who had to be burnt alive on the funeral pyre of her deceased spouse. Upon his death, she also had to die, because without her husband she no longer had any kind of support or help. This tradition was abandoned in time and it was officially banned in the early twentieth century. In its essence, this ritual was considered a voluntary act of the woman who, from her birth, was taught to believe that if she complied with the Sati tradition, she would directly get to heaven, together with her husband.

If the woman refused to sacrifice herself in the name of love for her husband, she was forced to do it. There were also (much more rare) cases when the mother performed the Sati ritual when her son died. If the husband had several wives, the one who had to comply with this tradition was the

last wife. There were also extremely rare cases when the husband performed this ritual upon the death of his wife.

The Dutch Professor Ane Nauta was the first person who coined the concept of honor crime. The Human Rights Watch NGO defines honor crimes as “acts of revenge, generally resulting in death, committed by the male family members against the women from the same family, alleged to have brought dishonor upon the entire family” (Human Rights Watch, 2001). This type of crime is called honor crime, being based on the chastity and purity of female sexuality (and not that of the man).

The reasons for resorting to this extreme gesture can be varied, from refusing to enter into a marriage arranged by the family, to the mere suspicion that the woman had made a gesture that would dishonor her family, such as being the victim of sexual assault, her desire to divorce, adultery or, worse, loss of virginity before marriage, birth of a child out of the wedlock, the woman’s flee with the man she loves etc. Unfortunately, in all these cases, forgiveness is not possible under any circumstances, the only solution accepted by the society being the application of the tradition, which consist in killing the woman by a male family member (father, brother, husband). The United Nations Organization has approximated recently in its studies that, every year, about 5,000 girls and women die because of this type of crime, based on culture and respect for traditions, and in the Middle East and Asia the real number is assumed to be four times higher.

The countries that apply and respect these practices at present are generally Muslim countries, or those countries where the population of this religion predominates (Turkey, Bangladesh, Morocco, Pakistan, and the Palestinian Authority). However, there are also other states, which are not foreign to these practices: Brazil, Ecuador, Egypt, India, Israel, Italy, Jordan, Sweden, Uganda, United Kingdom, i.e. countries where the practitioners of these rituals have migrated. However, it is noteworthy that many Muslim leaders and people of Muslim culture condemn this practice and deny its source in the religious doctrine; nevertheless, it is true that Islam is categorical regarding the prohibition of sexual activities outside marriage. Arabs use to say that honor is sacred and precious and it can be washed only with blood and that sinners should be killed; moreover, Palestinians say that reputation is everything. Only in 2000, two thirds of all the crimes committed in Palestine were honor killings, which the state does not punish (UNICEF, 2000). Ways of performing these traditions are extremely different. However, no matter how performed, it must result in killing the guilty woman.

In recent years, there have been launched several aggressive campaigns against such inhuman practices, through the media, movies, reports, books, education etc., in order to stop these crimes committed in the name of traditions. It has also been established an international day of solidarity with the victims of honor killings, on 29 October, bearing the suggestive slogan: “There is no honor in killing!” (Kvinforum, 2005).

The country where such practices are most widespread is Pakistan, where honor killings are called “*koro kari*”. In these countries and in Turkey, these women appear as having taken their own lives, not as have been killed. The old Turkish Criminal Code favored traditional crimes. If one had not acted according to the customs of a community, this act would have been considered as challenging. Honor killings went into a category different from the ordinary crimes. Turkey’s current Criminal Code, promulgated on 26 September 2004, included many positive amendments in this respect, under the pressure to comply with human rights and freedoms and with the equality between women and men.

Unfortunately, history confirms that such practices, performed in the name of culture and tradition, invoking religious beliefs, have existed since Antiquity, enduring for centuries, especially in rural areas. Moreover, later, due to the migration of the population, it has spread to urban areas, but not with the same intensity. Thus, under pressure from the social environment and traditions, their preservation and conservation are encouraged.

#### **4. Conclusions**

The above-mentioned issues trigger several important conclusions. Culture is an indispensable factor of any human society. It has existed since ancient times until today, so it is a ubiquitous and contemporary phenomenon. Culture consists of a set of material and/or spiritual abstract or tangible

values, different in nature and as a way of expression.

Culture is the society's treasure, which has endured through the ages, imposed by traditions, dogmas, and rituals, beliefs, meant to preserve in people's memory and manifestation everything that is better and more beautiful for the humankind.

Therefore, it should not contradict the moral, the public good and the human rights and freedoms. Unfortunately, as we have seen in this study analysis, there are religions, rituals, traditions and events performed in the name of culture that are in total conflict with those stated above.

Barbaric rituals practiced on women and girls in particular, in the name of religion and traditions, provoke a strong sense of revulsion, being blamed and condemned at the same time. The practice of circumcision of girls, killing women who do not obey the traditions of the south-east of Turkey, burning of Hindu women together with their deceased spouse (the Sati ritual) should be banned forever! It is unacceptable to maim, to torment and to kill in the name of faith, as an integral part of the culture!

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## The Evolution of Public Expenditures in Romania during 2000 - 2013

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### Abstract

*The importance of public expenditure emerges from the fact that they are one of the ways used to assess the size of the public sector throughout the economy. They are oriented towards the development of various sectors such as agriculture, transport, industry, communication, education, health in order to achieve sustainable growth. This paper aims to analyze the evolution public expenditures in Romania during 2000 - 2013. The analysis involves monitoring the evolution of public expenditures as a share of GDP overall and by category of expenditure and a short comparison with spending levels reached in the European countries.*

**Key words:** public expenditures, dynamics, GDP, share

**J.E.L. classification:** E60, E62

### 1. Introduction

It is indisputable that public expenditures aimed fundamentally social, human and economic development, but most important is to understand that manifests significant influence on economic growth.

One of the most important lessons learned from the wave of empirical research on growth in recent years is that this growth of a country is not determined by just one factor. However, in the literature there is a wide recognition on expenditure as a factor determinant of competitiveness and productivity growth. (Moise-Țiței, 2013, p.318)

The way how structured and sized public spending is not just a transaction that establishes the resources and opportunities necessary for their coverage, but represents an essential element of any economic policy. (Angelescu *et al*, 2001, p.127)

The budget construction depends on economic priorities at micro and macroeconomic level, taking into consideration economic conception and theory that public authority adopts. Regarded as one of the most important indicators of fiscal policy, the share of public spending in GDP expresses the size of the public sector within economy. (Inocențiu, 2014, p.207)

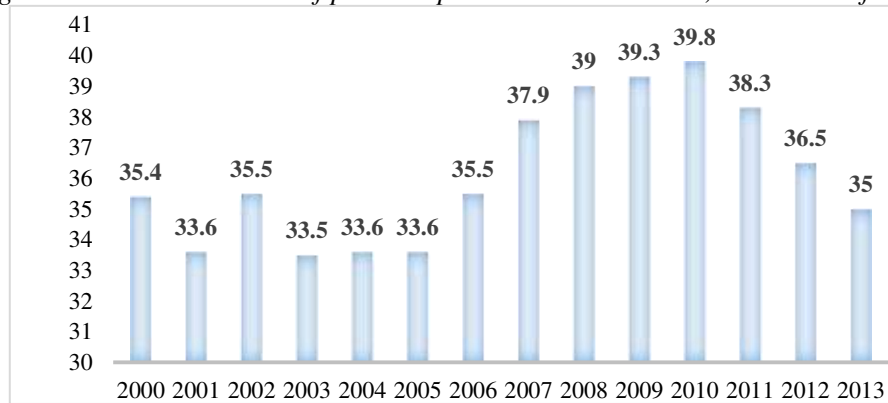
### 2. The evolution of public spending in Romania during 2000 - 2013

Knowledge of the structure of public expenditures is important because it highlights how financial resources are allocated for economic, financial, social or cultural objectives. However, analysis of public expenditure must be carried on total and by component and delineated based on various criteria: economic, operational, administrative, political, financial.

Further, we conducted a quantitative and qualitative analysis of public expenditures. Quantitative analysis traces the evolution of public expenditure level, while qualitative analysis monitors their structure.

In order to obtain a more detailed and clear image on the size of this indicator in figure no. 1. is presented the evolution of public spending as a share of GDP in Romania during 2000-2013.

Figure no. 1. The evolution of public expenditures in Romania, as a share of GDP



Source: realized by the author according to data from Eurostat

Most of researchers support the concept of large public expenditures, because they put money in circulation, helps to increase investment and increase employment. However, high levels of public expenditures can have some obvious economic consequences.

The figure above presents the oscillating evolution of public expenditures in the period considered: during 2005-2010 expenditures have increased continuously, and in 2010 the trend was reversed after all austerity measures implemented in our country.

Much more important is to examine the composition of public spending as orientation highlights the financial resources to economic, financial or social objectives. Therefore, the analysis of public expenditures should be done both ways, as a total and by parts. Next, we will limit ourselves to structure public expenditures according to two criteria, namely economic criteria and functional criteria.

In table no. 1. is presented the structure of public expenditure expressed as a share of GDP, according to economic classification.

Table no. 1. The structure of public expenditures according to economic classification, % of GDP

Year	Current expenditures	Capital expenditures	Total
2000	31,9	3,5	35,4
2001	30,4	3,2	33,6
2002	32,3	3,2	35,5
2003	30,1	3,4	33,5
2004	30,4	3,2	33,6
2005	29,7	3,9	33,6
2006	31,7	3,8	35,5
2007	33,4	4,5	37,9
2008	34,4	4,6	39
2009	35,1	4,2	39,3
2010	35,8	4	39,8
2011	34,2	4,1	38,3
2012	33,3	3,2	36,5
2013	31,8	3,2	35

Source: realized by the author according to data from Eurostat

The table above shows that most of public expenditure are current expenses. Since current spending guarantees supporting public institutions, funding public actions, they constitute a final exhaustion of gross domestic product, and thus, these expenses must be renewed every year. Their evolution is a fluctuant one, the average being 31%.

Capital expenditures, also known as investment expenditures are materialized in procurement of durable goods, material and immaterial production-oriented area such as hospitals, administrative or cultural establishments. Capital expenditures also have varied during period under review. If at the beginning the analysis period their share was about 3.5%, after 2007 their share in total expenditure increased to a maximum of 4.6%.



Functional classification uses branches, sectors and areas of activity as criteria for the allocation of public expenditure. According to specific destination criteria, the major expense categories based on functional classification and their evolution as a share of GDP are shown in the following table.

*Table no. 2. The structure of public expenditures by functional classification, % of GDP*

<b>Year</b>	<b>General public services</b>	<b>Defence</b>	<b>Public order and national security</b>	<b>Education</b>	<b>Health</b>	<b>Social protection</b>	<b>Economic actions</b>
2000	7,9	2,2	2,2	3,2	4,2	10,9	5,6
2001	6,5	1,9	1,6	3,9	4,1	11,1	4,9
2002	5,4	2,2	2	4	4,1	10,1	4,4
2003	4,1	2,5	1,9	3,5	3,5	10	4,9
2004	3,9	2,2	1,8	3,6	2,5	11	5,6
2005	3,3	3	2,1	3,6	2,7	11,1	5,3
2006	3,3	2,3	2,4	4,1	2,7	11	6,9
2007	4,3	1,8	2,4	3,9	3,1	11,2	8,3
2008	4,7	1,5	2,2	4,5	3,2	12,4	7,8
2009	4,2	1,5	2,2	4,2	3,8	14,6	7,7
2010	4,4	1,5	2,4	3,3	3,6	14,9	6,8
2011	4,8	0,9	2,2	4,1	3,4	14,1	6,7
2012	4,9	0,7	2,2	3	3,1	13,6	6,2
2013	4,8	0,9	2,1	2,5	3	13,4	6

*Source: realized by the author according to data from Eurostat*

During the whole period examined, the largest share of expenditures belonged to social protection expenditure, the maximum value (14.9% of GDP) was reached in 2010. The share of social protection expenditure of GDP is the synthetic indicator of accountability of the Romanian state for achieving and balancing welfare. Although holding the largest share of GDP, the level of these expenses was kept at a low level compared with the European Union. Thus, our country is ranked last in the EU area by the percentage of GDP spent on social protection, with only 14.9%, after an exchange of places made with Latvia. In the sphere of social protection expenditure are covered risks such as unemployment, old age, disability, disease or health insurance, housing and social exclusion, and threshold reached by these spending in Romania is almost half the value achieved at EU level (30% of GDP). We believe that low and fluctuating values of these expenditures highlights the continuing need for social protection of the population from public authorities.

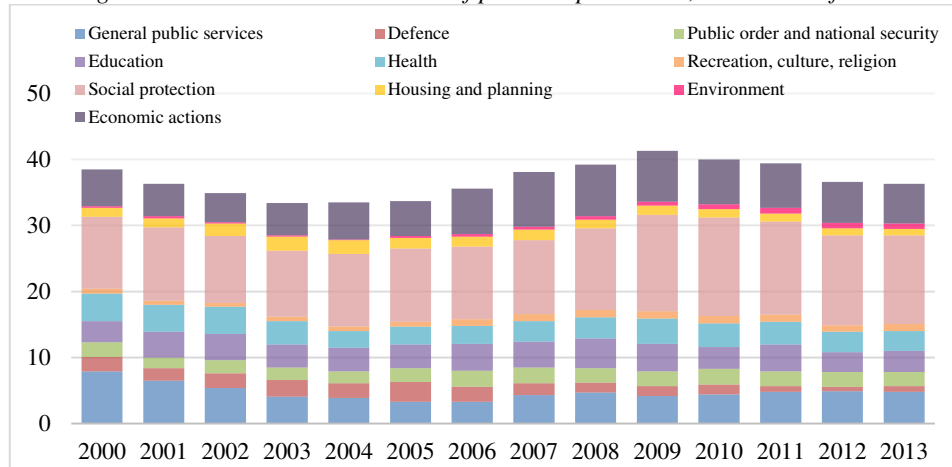
Regarding the trend of economic actions, they fluctuated during the period under review, however, since 2007 until now, these expenses have shown a declining trend. Like other costs, public order and national security expenditures have also fluctuated during the same period, their level settling around 2% of GDP. Maximum value for defense expenditures was 3% of GDP reached in 2005, then continued to decline until 2012, reaching 0.7% of GDP (the minimum threshold for this category of expenditure).

Expenditures on education has varied, but the amounts allocated for the Romanian education did not exceed the limit of 4.5% of GDP in 14 years analyzed. Although it is known that a performing education system presents multiple effects, in Romania their level is still very low.

According to a study by McKinsey & Co. an improved education system influences significantly three key economic dimensions: emphasizing economic development, increasing social cohesion, improving health. The same study informs that optimized PISA scores by 40 percent increases GDP per capita by 0.9% over one generation (30 years). Regarding education expenditures Romania also ranks among the world's laggard, being surpassed by China, Bulgaria and Indonesia, which are examples of countries with the lowest investment in education. Among the countries with the largest investments in education we mention Sweden (7.5% of GDP), Finland 6.8% of GDP or UK with 6.2% of GDP. Also we believe that improving education levels in Romania can lead to better adapt to changes in the labor market. If in 2010 a 80% of the positions in the labor market within the European Union required a medium to high degree

qualification, in 2020 it is expected to rise to 85%, of which 35% will represent only positions high qualification grade. In other words, the positive impact of education expenditure could be interpreted as reducing the risk of poverty, reduce unemployment, rising living standards and life expectancy.

Figure no. 2. Functional structure of public expenditures, as a share of GDP



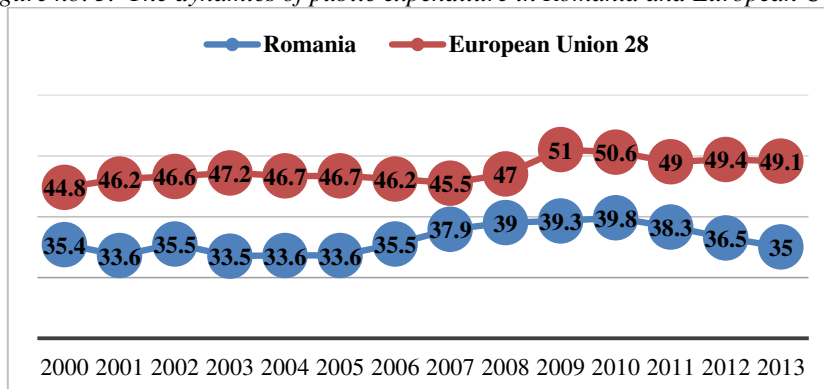
Source: realized by the author according to data from Eurostat

During those 14 years analyzed health spending fluctuated, the lowest values were recorded in 2004 - 2006 when their share in GDP did not exceed 3%. Since 2007, health expenditure had an increasing trend, but have not exceeded the threshold of 3% of GDP. Advanced economies assigns important resources for the health sector, with the assumption of long-term sustainable development. In other words, a better state of health contribute to increasing participation and labor productivity, the health sector is considered one of the key drivers for economic growth. A range of factors influence health, from lifestyle, access to innovative care or resources to health. Within the European Union had manifested a tendence to increase the share of health expenditure in GDP from 6.4% to 9.9% of gross domestic product. Romania is the country with the lowest health expenditure, amounts distributed from the health budget being reduced dramatically between 2009 - 2011. While in 2009 Romania was ranked last, with a level of 5.6% of GDP for health (which means 11% of total public expenditure), public health expenditure in 2011 reached 3.7% of GDP, more below than the European average.

### 3. Romania and European Union regarding public expenditure level

It is interesting to note the evolution of public expenditure in Romania compared to the level achieved in the European Union. The following figure restores dynamics of public expenditure expressed as a share of GDP for Romania and the European Union over the period 2000-2013.

Figure no. 3. The dynamics of public expenditure in Romania and European Union



Source: realized by the author according to data from Eurostat

As we mentioned above, the evolution of Romanian public expenditures was a oscillatory one: during 2003 - 2009 expenditures had an ascending trend and since 2010 the trend was reversed. Within the EU, countries make available to government authorities almost half of gross domestic product. Maximum value of public expenditure at EU level was recorded in 2009, when they represented 51% of GDP, while the minimum was reached at the beginning of the analysis, respectively 44.8% of GDP.

The dynamics of public expenditure in 2009-2010 allowed structuring the countries of the European Union into two groups, thereby strengthening that European countries have been affected by the global financial-economic crisis in different times and different stages.

Countries such as Belgium, Bulgaria, Denmark, Germany, Estonia are countries where public expenditures had dropped, being particularly affected by the economic crisis in 2008-2009, while in countries such as Ireland, Poland, Romania and Cyprus public expenditures increased in 2010 in comparison with the previous year, the financial crisis being felt in 2009-2010.

#### 4. Conclusions and recommendations

In our country, there have been changes in terms of content and structure of public expenditure. In the period analyzed, 2000 – 2013, there was a general upward trend manifested by the public expenditure from year to year. A dynamic analysis revealed that public expenditures grow very fast in size. (Stanciu, 2011, p. 318)

The financial resources of the state are assigned mainly for payment of goods and services purchased by central and local governments of the state and the institutions under public law and to pay salaries, pensions and other rights for civil servants, for grants for various categories of economic agents.

Year 2008 was first year in which education sector received 4.5% of GDP. Health expenditure sector from Romania registered a low level compared with the European average. One explanation may be that health costs are considered to be unproductive and therefore a low priority in budget allocations.

Following the results of this paper, may be recommended following in order to stimulate economic growth through public sector expenditure: (a) it is vital for the government to ensure that capital expenditure and current expenditure are properly managed in a manner that contribute to increase the production capacity of the nation and faster economic growth; (B) it is important to increase investment in productive sectors, thus contributing to raising living standards, better productivity and therefore economic growth of the country.

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## **Economic Dependence – Key Factor in the Interstate Relations between Russia and Eastern Partnership’s Countries**

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### **Abstract**

*At global level, interstate relations are governed by increasing trends of dependence. The economic dependence is one of the key factors which shapes the interstate socio-political interactions. Given the complexity and variety of relations between Russia and Eastern Partnership’s countries, there are academic debates which starts from the concept of economic dependence that characterizes this relationship. In this study we have tried to achive a comprehensive analysis of the economic dependence that governs this relationship, considering, the european aspirations of Eastern Partnership's countries. In order to accomplish our goal, we will focus on answering the following questions by analysing the economical and political behavior of the actors: Are the Eastern Partnership’s countries vulnerable politically, due to their historical economic dependence on Russia? Russia's domination in the region relies on maintaining this economic dependence relationship? How this economic dependence influences the european route, of the countries, involved in Eastern Partnership?*

**Key words** : economic dependence, Russia, Eastern Partnership

**J.E.L classification** : F 50

### **Introduction**

Considering the fact that in the former Soviet Union, the economies of all countries have been connected with Russia’s economy and with each other, the economic factor plays a significant role in the interstate relations even after the break-up of the Soviet Union. The disintegration of the Soviet Union’s centrally planned economy have had as a result a number of independent states, some of them dealing with european aspirations and a transition to a market economy.

By creating the European Neighbourhood Policy and after that, the Eastern Partnership, the European Union admitted the willingness of a tight cooperation with the former soviet states. Initially hesitantly, the EU’s cooperative relations with individual neighbours have been characterized by bilateral and multilateral dialogue, which has led to a process of socio - economic and political support to its eastern neighborhood.

Having a policy dedicated to its “near abroad” European Union collides with the strongly Russia's interests in its shared neighborhood. Russia has regarded the European Neighbourhood Policy as a “prospect of intensified competition for influence in the European Commonwealth of Independent States (CIS)” (Emerson, 2004, p.8) and all the other initiatives dedicated to EU’s eastern dimension as an intrusion in its near abroad, which directly affects its sphere of influence.

“The concept of a Russian ‘sphere of influence’ or the idea of a Russian role in the ‘near abroad’ can be seen in conection with Russian attempts to secure its status as a great power through its efforts to project its power”. (Pacer, 2016, p.20).

### **1.Theoretical framework**

“It is asymmetries in dependence that are most likely to provide sources of influences for actors in their dealings with one another. Less dependent actors can often use the interdependence

relationship as a source of power in bargaining over an issue and perhaps to affect other issues” (Keohane et al, 1977, p.10-11).

Choosing the neoliberal as the framework for the economic dependence between Russia and Eastern Partnership’s countries we will initiate this analysis having as reference the definition given by Keohane and Nye which consider dependence as a “state of being determined or significantly affected by external forces” (Keohane et al, 1977, p.8).

Neoliberal scholars argue that economic, social and environmental issues are also very important priorities on the international agenda along with national security and military power and in order to understand the role of power in the interdependent relations have distinguished the two dimensions of interdependence: sensitivity and vulnerability.

If the sensitivity “involves degree of responsiveness within a policy framework” (Keohane et al, 1977, p.12) and may become the basis for significant political influence only when existing rule and norms can be taken for granted (by a stronger state) (Keohane et al, 1977, p.18), the vulnerability applies especially to the politico-economic relations and depends on the availability and cost of the alternatives that various actors might have (Keohane et al, 1977, p.18).

In our analysis where the economic dependence has led to an asymmetrical interdependence the weaker states are more vulnerable to the external changes because of the cost to adapt to the new changes. Economic interdependence involves not only economic interconnectedness but economic relations that are mutually costly to break and can be used as threaten to the more vulnerable state. The economic sanctions which impose economic costs on the more dependent state might determine unwanted actions but are not always a success action. The success of economic sanctions depends by the power of the state that impose the sanctions.

“As David A. Baldwin observes, sanctions can have purposes besides those explicitly articulated by the senders ” and “can coerce a target state to comply with a senders demands only when the domestic and international political cost of noncompliance are sufficiently high” (Blanchard et al, 2013, p.4). “The essential fact on politics is that power is always relative; one state’s gain in power is by necessity another’s loss.” (Gilpin, 1975, p.34).

Russia is not interested in gaining in economic area in the relationship with former soviet states but Russia’s main objective is balancing its economic interest with its geopolitical ambitions (Trenin, 2004, p.77).

The former Soviet States, after the USSR dissolution formed CIS mainly for economic purposes. In fact , ”in the case of CIS the linking of economic, political and military issues would assist Russia in using its economic power in other realms” (D’Anieri, 1999, p.123).

Keohane and Nye consider “manipulation of economic interdependence as an alternative to military means” and the existence of “economic ties generate added realm within which world politics can operate” (Crescenzi, 2005, p.50).

So, as Sussex argues in the shared neighbourhood “Russia’s main mechanism for control have been economic” (Sussex, 2012, p.62), in the complex struggles for power that has as target the countries from the eastern border of the EU, in which a variety of subnational, international and institutional actors are locked in competition over resources, territory, influence and ideas” (Sussex, 2012, p.63). Russian actions in order to use its economic power are related to the strength of Russia’s economy in order to be usefull to the regimes that are loyal to Moscow or to impose sanction and determine the countries from the “near abroad” to meet its demands.

## **2.General overview of the economic relations between Russia and EP’s countries**

The six countries involved in EU’s Eastern Partnership, Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine, are a part of this joint initiative as an expression of their desire for a closer alliance with the EU.

From an economic point of view all this countries have experienced a transition crisis following the dissolution of the USSR, and all were affected by the global economic crisis from 2008. Being characterized by a common origin, all this six economies have had strong trade and economic ties with Russia. As a part of a highly integrated and centralized economy they have an well connected infrastructure especially in the energy sector that brought them in an integrated area with Russian supplies.

The countries from Eastern Partnership, beneficiaries of the European Neighbourhood Policy have a “dense historical, geopolitical, social or economic ties with Russia in certain sectors” (Ademmer, 2014, p.673) and are characterized by corruption, markets closely linked to the states, unemployment and inflation. Despite their differences they are all economies in transition and they are struggling with low GDP per capita. The poverty left all these countries with high unemployment because many inhabitants have migrated for a better life.

The Eastern Partnership initiative supports the countries in their political, institutional and economic reforms, based on a new mechanism for regional cooperation that has a bilateral dimension and a multilateral dimension and provides a place for trade relations, economic plans, travel agreements and for other areas that are important for EU’s relation with its eastern neighbors.

Considering the fact that through the European Neighbourhood Policy and the regional initiatives for the eastern dimension, European Union try to achieve the closest possible political association besides the membership and the greatest possible degree of economic integration with the former soviet states from its eastern border, Russia consider the success of this instruments a real threat to its position in the region.

In order to meet the objectives of European Neighbourhood Policy and to create a zone of prosperity and stability EU use the Eastern Partnership framework to transfer policies to the beneficiary countries. This transfer is more difficult if is conducted in sectors in which countries are more dependent on Russia than on the EU so the economic dependence with Russia may be considered a real obstruction of the implementation of EU’s policies in the region.

Being a part from a centralized economy, the economies of Eastern Partnership countries are very specialized and relies on each other for resources and production. Along with the trade relations that all this countries have with Russia and in the CIS ‘s context, the energy dependence is the most important field that reflects not only in the economical relations between Russia and EP’s countries or Russia and EU, but also in the political decision between this actors. It is very important Millers opinion, which saw CIS as a vehicle for the continuation of Russian influence and coercion in its former Empire (Miller, 2006, p.102).

“Russia is equipped with substantial bargaining power in this cases to counter or cross the EU’s demand for policy change, either by providing attractive alternatives or by raising the cost of EU-demanded policy change by, for example, invoking sanctions” (Addemer, 2014, p. 673).

Economic sanctions will be an effective instrument if it are based on a relationship of asymmetric interdependence or a strategic economic advantage. Economic coercion happens when “the sender threatens to interrupt the status quo and block a stream of economic exchange with the target unless the senction country acquiesces to a specific demand made by the sender. If the target complies, sanctions are not imposed” (Drezner,2003, p.645)

## **2.1 Eastern Partnership’s countries and the economic sanctions imposed by Russia**

Based on the theory that economic interdependence can affect the behavior of the nation-state and that “foreign policy is much more than expressing a state’s interests; it is about achieving success in international realm according to the value of a state and the power at hand” (Maness et all, 2015, p.10) Russia have used a corrcitive diplomacy that not always has been a success.

In this respect, Maness and Valeriano argue that “Russia uses coercitive diplomacy in post-Soviet space because of the past history of diputes in the region, the high silence of issues at stake, issues of Russian great power identity” (Maness et all, 2015, p.4) and “begun to assert its hegemonic position among the former Soviet economies” (McFaul, 1995, p.27).

Russia’s vast exports of natural gas and oil integrated it in the world market and in this way, Russia “was able to pay off its foreign debts, gain leverage on many states in post-Soviet space in the form of energy coercion”(Maness et all, 2015, p.11).

Being a vital subject for EU and some of the EP’s countries, the energy field it is an area where Russia imposed its economic coercion. In the last years there have been many energy crisis that affected especially Ukraine but also Member States of European Union. The action of coercion by Russian over Ukraine in energy filed has started in 1990, but the hole Europe has been affected by gas crisis from 2006 and 2009 that made decide the European Union to think seriously to the

energy problem and take action to try to prevent such situations.”With the onset of the political crisis in Ukraine in November 2013, the negotiations on gas imports again became closely tangled with broader trade and political issues.” (Pirani, 2014, p.3).

Not only the Ukrainian energy was under Russian sanctions but other several categories of products like confectionery and dairy products were under Russia’s interdiction from July 2014 and September 2014. In November 2014 all these and these products’s imports from Ukraine were banned. So, as a result of these measures, “in the first nine months of 2014 Ukrainian exports to Russia declined dramatically (-27 %), while exports to the EU experienced a small but positive increase.” (De Micco, 2015, p.28)

Ukraine’s refusal to sign the Association Agreement in November 2013 was due to the threatening from Moscow, with economic sanctions and to some serious conditionings in energy area. With EU’s support Ukraine overcame this difficult moment and signed the Association Agreement in June 2014 starting, this way, a process of enhanced cooperation in foreign security policy and energy with EU, but remaining still vulnerable to Russia’s pressures.

Moldova, one of the most important countries from Eastern Partnership, considering its geographical position and the progress achieved in the first years of Eastern Partnership’s implementation, have strong economic relation with Russia, being dependent in energy sector and in other trade spheres.

After Moldova has signed the Association Agreement in June 2014, Russia has expressed its disagreement immediately, by applying sanctions. Although first important sanctions have been imposed in September 2013 to the Moldovan alcoholic beverages, the highest number of Moldovan goods, whose import has been banned by Russia, was in 2014, when in April, the processed pork was banned, followed by the fruits and canned vegetables in July, and all types of meat, in October. So as we observe “Russia’s sanctions most often envisaged those specific products from the agricultural sector and food industry that have a significant volume of exports for higher impact on the Moldovan economy and affect a large share of the employed population. This makes the Moldovan economy quite vulnerable to the Russian sanctions, not only in terms of export and GDP decrease, but also of social consequences” (Popa, 2015, p.6).

As a consequence of the sanctions imposed by Russia in 2014, “in the first 8 months of 2014 Russia’s share in Moldovan trade figures fell by a quarter” (Calus, 2014, p.2) and even they have had a negative impact on every sector involved, they have not resulted in drastic consequences on the entire Moldovan economy.

Because the Russia’s sanctions have not had the expected effects, Moldova is still on its European way and is implementing the Association Agreement having some obstacles consisting in economic problems and the actions of Russia’s supporters.

Being vulnerable, Moldova still fears that “in the context of the ineffectiveness of Russian pressure put on Moldova it is not inconceivable that, in order to achieve its political goals towards Chişinău, Russia will decide to use measures of force.” (Calus, 2014, p.7).

Like Ukraine and Moldova, Georgia’s economy it is heavily dependent on Russia, this dependency being deepened by its “geographic location. Georgia borders on Russia, and has few other strong neighbors it can turn to as economic alternatives” (Newnham, 2015, p.162).

Being one of the largest trading partner of Georgia, Russia has imposed economic sanction starting in December 2005, banning the agricultural products from Georgia and continued with wine and mineral water imports’s ban in 2006. There have been severe political tensions between Russia and Georgia after the Georgia’s Rose Revolution from 2004 which have been reflected in economic relations between them. These pressures have been complemented with prices increased for Russian gas dedicated to Georgian market.

Same scholars have argued that the Russian embargo did more good than harm to the Georgian economy because created strong incentives for the Georgian private sector to modernize and diversify it and catalyzed an increase in economic aid and technical assistance from the international community (Livny et al, 2007, p. 36) and probably persuaded them to act more decisively in the relations with European Union and signed the Association Agreement in June 2014.

Also, are very significant are the measures taken by Russia which affect the income level and the dependence on workers’ remittances of Ukraine, Moldova and Georgia that has consisted in

cancelling the simplified procedures for entering in Russia for the citizens of these three states and in the restrictions on employment for citizens from these countries (affecting potentially 436 000 Georgians, 285 000 Moldovans and 2.9 million Ukrainians). (De Micco, 2015, p.14)

Regarding the other three states from the Eastern Partnership, Armenia and Belarus have joined the Eurasian Economic Union and Azerbaijan has decided not to pursue economic integration nor with EU and neither with Eurasian Economic Union.

Russia remains the first trade partner of Belarus, the second partner of Armenia, the Republic of Moldova and Ukraine, the third of Azerbaijan and the sixth of Georgia. (De Micco, 2015, p.7) even if these countries are part of two different models of economic integration and one of them does not belong to any of two blocs.

Being fully dependent on Russian energy, having a lot of Armenians living in Russia, Armenia has decided in September 2013, not to sign the Association Agreement with the EU, and to join instead, the Eurasian Union in 2014.

“Hydrocarbon exports make the Azeri economy very different from the rest of the Eastern Partnership” (De Micco, 2015, p.20), not being dependent on Russia’s energy explains the fact that Azerbaijan was not forced to join the EU or the Eurasian Economic Union.

Belarus is dependent on Russian gas and has a subsidised centralized economy that is highly integrated with Russia's economy. In order to maintain its historical ties with Russia, Belarus has joined the Eurasian Economic Union in 2010. Despite the fact that Belarus is a constant and loyal partner of Russia, Russia has punished Belarus for refusing to impose the same bans and for becoming a “hub for channelling banned products into Russia.”

As it was demonstrated in this article, Russia have used the economic dependence and the economic sanction in the relations with the most countries from the Eastern Partnership.

### 3. Conclusions

All former Soviet states that are in a highly dependent economic relationship with Russia and on their path to independence or to a closer alliance with the EU, have met obstacle, due to economic bans imposed by the Russia. Some of this economic sanction have had a positive result for Russia and influenced political decisions of countries such as Ukraine, Armenia and even Belarus. Others have had no result and countries like Moldova or Georgia became more closer to the West as a result of these bans.

If the aim of the Eastern Partnership to improve the economies, governance and socio-economic situation in the EU’s eastern neighbourhood, would have been accomplished, the level of economic interdependence with Russia, of the countries beneficiaries of this initiative, would be decreased and so, the goal of the European Neighbourhood Policy would have been fulfilled.

Russia’s desire to maintain its domination in the region was reflected in the fact that Russia has responded with sanctions to any decision of the former Soviet states that have tried to become closer to the European Union. Considering the present geopolitical context, the tensions between Russia and the countries from the eastern border of the EU, that have European aspirations, will continue and will be shaped constantly by the power factor represented by economic dependence.

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## Aspects of Legal Translation in Contracts of Carriage

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### Abstract

*This article analyzes several aspects of the maritime law vocabulary, in order to overcome the problem of maritime inaccuracies in translation and to contribute to the better understanding and translation of texts and legislations within this field. The first section of this article deals with several key terms and issues in the field of legal translation and maritime language and highlights the fact that maritime language represents a functional variety of register. The second section presents the corpus analyzed within this paper in order to reveal the language variation in the two languages (i.e. Romanian and English) and to assess their lexical density. The third section is focused on corpus analysis, highlighting the language variation in the English and Romanian translation of the chosen texts from the field of contracts of carriage in maritime law.*

**Key words:** legal translation, contracts of carriage, English language, Romanian language

**J.E.L. classification:** K00

### 1. Introduction

Due to the recent intense use and increasing importance of the English language in many parts of the world, English has become an internationally spoken language, which engendered several linguistic, socio-cultural and pedagogical consequences. On the other hand, legal language is extremely complex and, therefore, many people do not completely understand important legal documents and regulations, such as those providing for their rights, fundamental freedoms and obligations, the rules from a statute, or the terms and conditions mentioned within an agreement. (Andrewartha, 2009, p.15). The need to understand legal words and their differences is increasingly urgent, triggered by elements such as the background of globalization, the necessity to harmonize laws at the EU level, the intricacy of economic, social, cultural and political factors and issues that greatly influence the legal field, the necessity for fast and effective resolutions to national and, especially, to international conflicts (Kocbek, 2006, p.20).

As a branch of ESP, maritime English emerged as a diversity of specialized technical English, triggered by the need to communicate effectively (either between the ship and the shore or among crew members or between crew and passengers) in order to provide safety at sea (International Standards of Maritime English as a Means to Improve Safety at Sea 2010). Moreover, due to the globalization that took over the shipping industry and the international nature of crews, the English language transformed into a lingua franca at sea; in this respect, it is noteworthy that, in 1995, the International Maritime Organization adopted English as “the language of the sea” (Karastateva, 2011, p.1). We should also take into account that the standardization of marine words and expressions is a continuous process, triggered, on the one hand, by those persons involved in the teaching process and, on the other hand, by the International Maritime Organization, through its standards and requirements as far as the seafarers’ skills and qualifications are concerned.

It is noteworthy that maritime English has an operational nature and it also displays several restrictions regarding its functional features. Besides the quite extensive specialized vocabulary, which varies according to the particular field (such as navigation, engineering, harbor operations and naval architecture), maritime English is also characterized by limited grammar structures and style restrictions imposed by the technical nature of the text. Thus, in order to improve the students’

learning of maritime English, the academic curricula needs to have in view only the features of general English but also the above mentioned particularities (Shen and Wang, 2011, p.20).

Maritime language as technical terminology represents a functional variety of register, which encompasses several recurrences of linguistic items, in contrast with general language. General aspects of the language may be analyzed when approaching the subject of maritime language as technical terminology, but there are other implications, such as the legal framework and difficulties in translations (Nădrag and Stroescu, 2002, p.7). In this way, there are many things to be taken into account when discussing maritime language, such as the historic factor, the international factor and the legal aspect and legal terminology (especially when discussing maritime conventions).

## 2. Corpus presentation

The research described in this article was carried out to overcome the problem of maritime inaccuracies in translation and consisted in investigating the material with the purpose of identifying the main lexical units, finding the ‘right’ terms in maritime language. The corpus for the analysis carried out within this study was created by collecting fairly representative texts of the language used in the maritime transport, i.e. two legal texts: *Hamburg Rules, United Nations Convention on the Carriage of Goods by Sea, 1978, articles 1-11* and *Government Ordinance 42/1997 (r1) of 28/08/1997, republished in The Official Gazette, Part I no. 210/10.03.2004 as to the naval transport, modified and completed*).

The *Hamburg Rules* are a set of rules governing the international shipment of goods, resulting from the United Nations International Convention on the Carriage of Goods by Sea adopted in Hamburg on 31 March 1978. The Convention was an attempt to form a uniform legal base for the transportation of goods on oceangoing ships. The developing countries’ attempt to level the playing field represented a driving force behind the convention. In its turn, *Government Ordinance 42/1997 (r1) of 28/08/1997* is one of the very few regulations governing the naval transport in Romania and it represents the transposition of the *Hamburg Rules* in the Romanian legislation.

## 3. Research methodology: the text content analysis tool

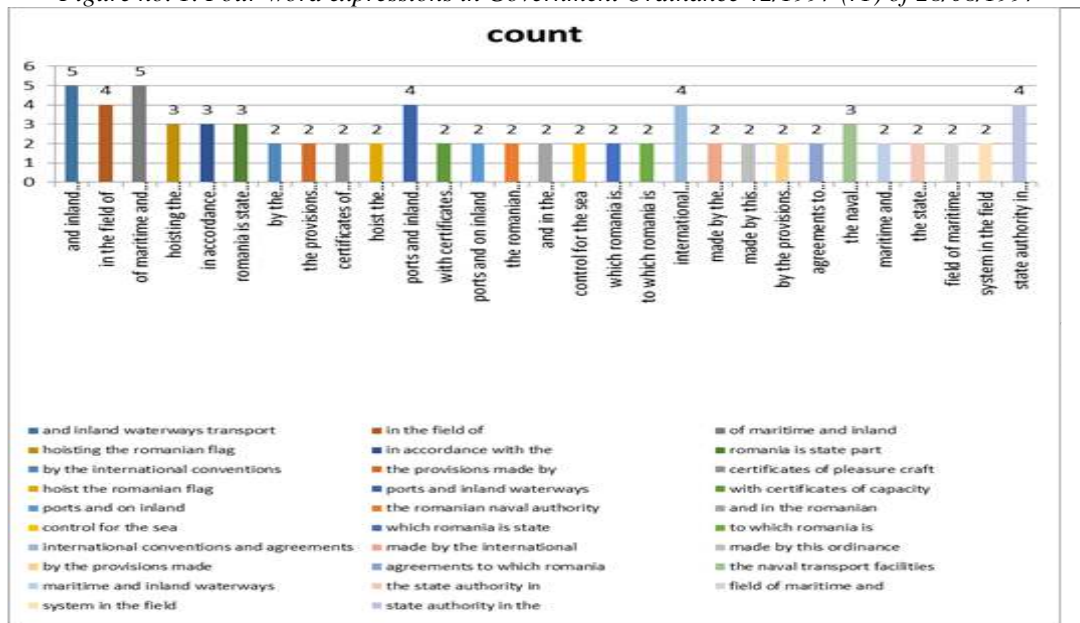
This section is focused on the corpus analysis, highlighting the language variation in the English and Romanian translations of the two legal texts from the field of maritime law (more specifically, from the law of contracts of carriage by sea) presented in the previous section. The objectives of this analysis are to detect language variation and difficulty in the words and phrases used in specialized maritime language, using a specialized English and Romanian corpus, and to contribute to the clarification and better understanding of several words and phrases specific to the terminology of maritime law and, more specifically, to the terminology in the field of the contracts of carriage by sea. In this research, in order to achieve the proposed objectives, we used the Text Content Analysis Tool, which is an instrument that analyses the text content and automatically produces statistics related to a text; these may deal with issues such as word count, special words, number of phrases and sentences, average number of words within a sentence, lexical density etc. An additional value is brought by the amount and type of information obtained on lexical behavior which contributes to map the lexical profile of the register (i.e. legal language, maritime law on the contracts of carriage by sea). The corpus analysis will reveal a pattern for maritime English language, which cannot otherwise be studied by direct human observation, given the great amount of the data involved. Moreover, in language analysis, the sampling of data is necessary.

## 4. Corpus analysis

The analysis of four-word expressions (see Figure 1), in *Government Ordinance 42/1997 (r1) of 28/08/1997* highlights that that maritime law has more nouns as key words, with verbs (especially in present tense or in present or past participle) as the next word class more commonly used; moreover, prepositions such as “in”, “by”, “for”, “to”, “of”, “between” are also widely used. The majority of the words used are semi-technical (“transport”, “international”, “convention”, “agreement”, “sea”, “port”, “system”, “carriage” etc.) and technical words (“inland”, “waterway”,

“hoist”, “naval transport facilities”, “craft”, “shipper”, etc.).

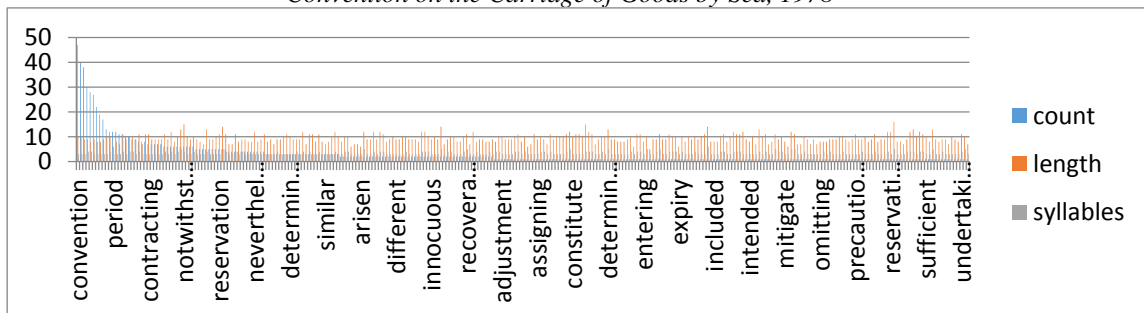
Figure no. 1. Four-word expressions in Government Ordinance 42/1997 (r1) of 28/08/1997



Source: Processing by Text Content Analysis Tool

Figure 2 and the statistics regarding specialized word count and length show that, within the text *Hamburg Rules, United Nations Convention on the Carriage of Goods by Sea, 1978*, there predominate three or four syllable words, of mild difficulty, such as: “convention”, “provisions”, “liability”, “paragraph”, “delivery”, “consignee”, “document”, “agreement”, “accordance”, “particulars”, “limitation”, “applicable”, “dangerous”, “provided”. These words are semi-technical or non-technical. Longer and more difficult words are used less within the corpus (one to six times); however, these are semi-technical or non-technical words: “compensation”, “international”, “notwithstanding”, “circumstances”, “responsibility”, “nevertheless”, “jurisdiction”, “subparagraph”, “attributable”, “consequences”, “inaccuracies”, “inconsistent”, “interpretation”, “correspondingly”, “identification”, “requirements”, “responsibilities”, “supplementary”.

Figure no. 2. Readability by using indicators such as hard words in *Hamburg Rules, United Nations Convention on the Carriage of Goods by Sea, 1978*

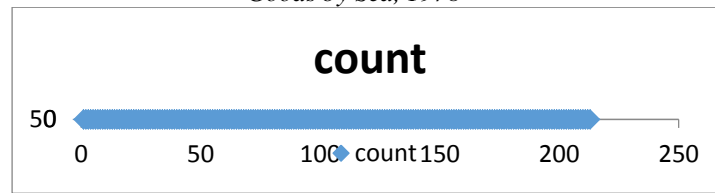


Source: Processing by Text Content Analysis Tool

Figure 3 shows the number of counts, as far as lexical density is concerned in the *Hamburg Rules, United Nations Convention on the Carriage of Goods by Sea, 1978*. The Lexical Density Test, aimed at revealing the reading difficulty level of a text, employs the following formula:  $\text{Lexical Density} = (\text{No. of different words} / \text{Total no. of words}) \times 100$ . It also tries to establish the share of content words in relation to the total number of words. It is noteworthy that the lower the density of a text, the more understandable it is. For example, a lexical density level of around 60-70% signals a lexically dense text, while a lower lexical density level of around 40-50% belongs to less dense texts. From this perspective, the above chart reveals that the analyzed corpus (*Hamburg Rules, United Nations Convention on the Carriage of Goods by Sea, 1978*) has a low density and is, therefore (especially combined with the fact that there predominated three or four syllable semi-

technical and non-technical words), more easily understood by readers.

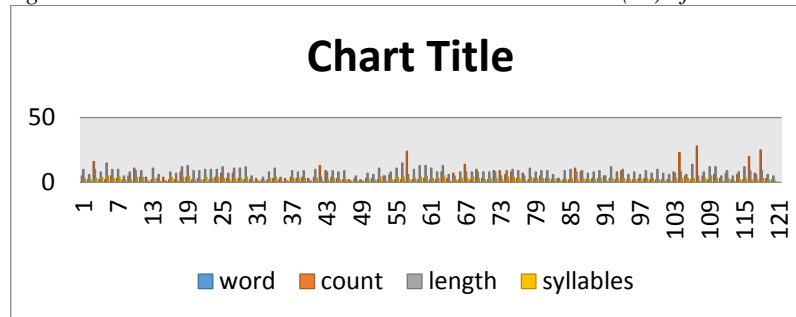
Figure 3. No. counts – Lexical Density Hamburg Rules, United Nations Convention on the Carriage of Goods by Sea, 1978



Source: Processing by Text Content Analysis Tool

Figure 4 and the statistics regarding specialized word count and length show that, within the text *Government Ordinance 42/1997 (r1) of 28/08/1997*, there predominate two, three and four syllable words, of mild difficulty, such as: “activities”, “authority”, “maritime”, “ministry”, “national”, “naval”, “performs”, “inland”, “provisions”, “surveillance”, “transport”, “waterways”. These words are semi-technical or non-technical. Longer and more difficult words are used less frequently within the corpus (one to six times); however, these are semi-technical or non-technical words: “administrations”, “certification”, “infrastructures”, “installations”, “institutional”, “international”, “professional”, “self-propelled”, “subordinated”, surveillance, “transmission”.

Figure 4. Word count in *Government Ordinance 42/1997 (r1) of 28/08/1997*



Source: Processing by Text Content Analysis Tool

According to Halliday (1988, p.14), specialized languages are functional varieties or registers that can be referred to in terms of the recurrence of certain linguistic items in comparison to general language or other variations. In order to understand, characterize and properly use specialized languages, quantitative and qualitative data are of exceptional importance. Furthermore, specialized corpora provide the necessary means for register description and allow for quantifying language characteristics.

Language users transmit their own perception of reality through language, using it for its main purposes: to convey and receive information, to organize, clarify and summarize ideas, to persuade, influence or manipulate others. Speakers choose discourse strategies depending on the social, economic, political or academic status of their addressees (Popescu, 2015, p. 109), their own status, the general context. Moreover, speakers decide on the vocabulary, phrases and the disposition of sentences and complex sentences when using a foreign language. A great deal of other factors have a huge impact on communication in a foreign language: mother tongue, other previously acquired or learned languages, the socio-cultural background knowledge. All this can lead to variation in second/foreign language use. As to Smith (1983, p.192-193), he prefers the phrase „register variation” applied to the variations produced depending on the context.

All languages have standardized „rules” for conceiving academic, technical or scientific texts. This has been the result of the effort to avoid too much language change, which has nowadays been demolished by communication technology use (Baca, 2008, p. 14), to maintain precision and avoid ambiguity. The Internet and the World Wide Web have led to amazingly fast language changes if compared with the last century. As Duszak (1997, p.9) points out, "Recent insights into academic writing have shown considerable variation in text characteristics across fields, languages and cultures. [...] Among the most notable differences are field-and culture-bound disparities in global organization schemata of texts."

Generally, specialized languages have their own features, associated with a certain type of thinking, such as formal style, domain specific vocabulary/ highly specialized vocabulary, simple language structures, impersonal forms, short sentences, or on the contrary, long, complex, convoluted sentences (e.g. legal language). Technical writing is different from other genres in being formal and direct; consequently, synonyms, metaphors, colloquial expressions are to be avoided. Eggins and Martin 1997: 336) suggest further characteristics: the use of standard syntax without abbreviations; no reference to the author of the text; the topic is considered the most relevant aspect; use of incrustations; lots of subordinated sentences put together, long complex noun phrases; a great numbers of nouns and a decreased number of adverbs. Thus, Duszak (1997, p. 2) states that "All this contributed to the image of a dehumanised language of science, and likewise to the image of a dehumanised writer".

Specialized words and expressions highlight objectivity, and help foreign language writers understand and use specific language appropriately; unfortunately, at the same time, these characteristics may constrain natural communication.

## 5. Conclusions

In our study, we have conducted an analysis on the lexis of legal maritime English, from two legal texts: *Hamburg Rules, United Nations Convention on the Carriage of Goods by Sea, 1978, articles 1-11* and *Government Ordinance 42/1997 (r1) of 28/08/1997, republished in The Official Gazette, Part I no. 210/10.03.2004 as to the naval transport, modified and completed*). For this purpose, by means of Text Content Analysis Tool, we extracted the legal maritime and checked qualitatively the effectiveness of the statistical classification. We have also attempted to map the lexical profile of these two legal texts. It is noteworthy that the methodological basis of the corpus research is diverse as it not only covers the fields of corpus linguistics but also involves looking into grammatical and lexical relationships and discourse analysis. The study is concerned with data of language used in maritime law literature and uses corpora to investigate the language of maritime law.

The tools available in the Text Content Analysis Tool assisted us in conducting the corresponding analysis. Moreover, collocates, fixed phrases and clusters were instantly revealed from concordance lines. The analysis of syntagmatic relations revealed prefabricated word combinations within the texts. It is noteworthy that these word combinations represent a characteristic of the analyzed register and an essential element in the production and understanding of the specialized legal knowledge (Scott, 1998).

It should also be added that a more clear image of any language can be obtained by analyzing the words occurring significantly more often within a certain linguistic area, compared to the general language use, rather than by paying attention to those words with a high frequency level (i.e. key words) (Scott, 1997). Key words were arrived at in this study by using the key word function of the Text Content Analysis Tool. A word got into the list if it was unusually frequent (or unusually infrequent) in comparison to a larger word list.

Overall, the three largest word class categories among the key words for all the studied documents were similar, that is, nouns. This was followed by verbs and then adjectives. The analysis of key words has clearly identified that maritime law has more nouns as key words, with verbs and adjectives as the next two word classes more commonly used, and that the majority of the words used are semi-technical and non-technical words. However, semi-technical words, such as “liability”, “responsibility”, “contract”, “agreement”, “carrier”, “carriage”, “transport”, “transportation”, “certification”, “certificate” could pose a problem to translators who have a high proficiency in English language; therefore, these words ought to be given a more uniform translation and understanding. There should also be caution in handling these words as individual words in maritime law as many of them appear more as multi-word units in the texts and thus become more technical in appearance, for example, phrases such as “causes that exclude the liability” and “being found responsible” or “transport agreement” or “contract of carriage” may be familiar but they become sub-technical and semi-technical and need to be carefully used.

It is through corpus studies like this that linguists, translators and material writers would be able to check and understand the differences in English maritime law from the general English language

and be able to apply this knowledge within their field of activity (Scott, 1998). The novelty brought by this paper consists in the choice of the corpus and in the use of the *Text Content Analysis Tool* in an attempt to extract the specialized vocabulary of the discipline, to reveal the terminological intricacy and to contribute to a better understanding of this specialized terminology within the field of maritime law. This study proves that there is a need for small corpus studies to be carried out, especially on language for specific purposes, as these types of studies provide insights which would help in the production of better learning materials and in the teaching and learning process.

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# Company Mergers and Acquisitions on the Edge of Unlawful Competition

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## Abstract

*In the field of economy, transactions represent one of the fastest means available for improving any company's commercial and strategic position in the market. The context of technological developments in recent years and the trend of globalization have largely influenced work in the fields of goods and services. Currently, geographical factors are no longer an obstacle and companies can expand their production without being influenced by state frontiers. International mergers and acquisitions are, most often, joined by a true "cultural shock"<sup>[1]</sup> and must comply with regulations on competition both nationally and internationally. Since the penalties imposed by authorities in charge of competition regulations are substantial, both internationally and nationally, this means that, when making mergers, one should be very cautious.*

**Keywords:** Merger, acquisition, lucrative companies, penalty, competition

**J.E.L. classification:** K21

## 1. Introduction

When considering its origins, the concept of competition was formed and is being used in any social relation. Legal regulations have taken it over from lay discourse, adding specific meaning to adapt it to the features of economic life. In general, competition entails a confrontation between opposing trends that actually converge towards the same goal.

Socially, there are extremely varied forms of competition. They display, inter alia, a situation of vital competition, meaning the interpersonal conflict in which each individual tends to preserve and develop themselves. There can also be a competitive opposition between individual and social interests, between rights and obligations between selfless and selfish actions<sup>[2]</sup>.

The term competition is prone to having several meanings. More broadly, competition may be regarded as an essential component of the concept of market economy, designating both the state entailed by the collective competitive behavior of economic operators in the market, and the competitive behavior of each one. Narrowly, competition should be seen as the free competition between economic operators in a given market. Their products or services tend to satisfy similar or identical needs of consumers, and competition is developed with the aim of ensuring the existence or expansion of their trade.

In the field of trade, there is an increasingly urgent need to monitor competitive activity, at national, European and global levels.

In most cases, the authorized bodies that monitor their compliance with legal regulations in the field of competition also get involved in the economic cycle, more precisely in terms of the methods used by each trader, this being a generic name, in order to make profit.

## How can we protect the competitive environment in Europe in the field of company mergers and acquisitions?

The European Council Regulation no. 1/2003 is extremely important in this field, as it establishes a new set of rules for aligning national legislations to that of the European Community. Before Romania's accession to the European Union, this Regulation was not implemented, but



national legislation transposed Community legislation and did contain elements needed for the implementation of the provisions of the Regulation. However, since accession to the EU, according to art. 249 of the EC Treaty, the regulations became directly applicable and binding, entailing rights and obligations just like any national law<sup>[3]</sup>.

In this context, one of the most important principles set out in Regulation 1/2003, following earlier decisions of the European Court of Justice, is that art. 81 and art. 82 of the EC Treaty are directly applicable not only by the European Commission, but also by national authorities in charge of competition practices and national courts, according to internal procedures.

Regarding the connection between national law and EU Community law, especially given the fact that national authorities can apply both the Community law and the national law, the Regulation establishes that national law must not lead to the prohibition of agreements, decisions by associations of economic agents or concerted practices which do not fall under art. 81 par. 1, or which may be exempted under Art. 81 par. 3. However, national authorities in the respective states may apply stricter rules to stop unilateral behaviors of economic agents.

This Regulation introduces the procedure of commitments, meaning that, in case the Commission identifies an agreement that violates art. 81, it can accept, from the respective traders, their commitment to eliminate anticompetitive provisions, highlighted in the Commission's preliminary assessment. In case of failure to observe the commitment, of changes in circumstances, of discovery of other piece of information, the Commission may reopen the procedure. This procedure does not affect the prerogatives of national competition authorities and of law courts in Member States.

National authorities, including courts of law and the European Commission<sup>[4]</sup> are each bound to exchange information, including confidential data, being obliged to keep the secrecy and to use the data exclusively for the purpose for which they were requested. Regarding national courts of law that decide in cases referring to competition, Member States must send copies of their decisions, after such decisions were communicated to the parties. National authorities in Member States, as well as the European Commission, may submit written opinions and, with the permission of the court, they can intervene orally. Also, courts may request information and the opinion of the European Commission. Given the jurisprudence of the European Court of Justice, Art. 16 of the Regulation provides that national courts cannot make, when implementing art. 81 and 82 of the EC Treaty, decisions that are contrary to those of the European Commission. If investigations are ongoing within the Commission, courts may decide to suspend decisions in cases whose solution could entail the risk of issuing contradictory decisions.

### **The relation with national authorities in charge of competition:**

Regarding the relation with national authorities in charge of competition, the EU Commission's prerogatives have precedence. Thus, national authorities must inform the European Commission no later than 30 days before the date of adoption of a decision under Articles 81 or 82. It is also important to note that the initiation, by the Commission, of procedures for the adoption of a decision under Articles 81 or 82, leads to the loss of competence of the national authorities to apply Community law in the respective case; if the cause is pending a solution from national authorities, the Commission can take over the case only after consulting the respective authorities.

Limited to presenting key aspects of Regulation no. 1/2003, it should be noted that all these provisions were established to ensure a uniform interpretation of Community law at EC level, given that, according to the previous provision of this Regulation, the European Commission held the monopoly for the implementation of art. 81 and 82. In addition, the European Commission, national authorities in charge of competition and national courts form, according to the Regulation, a European network for the implementation of the competition law and they must work together in order to create a competitive environment and a competitive internal market, according to the objectives set forth and agreed upon in the EC Treaty.

The Competition Council plays an active role in that it makes decisions where it concludes, after an analysis, that concerted actions were implemented although they are incompatible with a normal competitive environment, and it may make any decision to return to the previous situation.

### **The legal solutions in case of company acquisitions:**

Mergers refer to the absorption of a firm by another firm. The acquiring company can decide to keep their name and identity, taking over all assets and liabilities of the acquired company. After a merger, the acquired or absorbed company ceases to exist as a separate business entity. Consolidation is similar to merger, except that, by this operation, a new company is born. In the process of consolidation, both the acquired company and the company that makes the purchase end their legal existence and thus become parts of a new firm. When referring to these two concepts, it is easily observed that there are similarities between them, and, for this reason, these types of corporate reorganizations will simply be considered mergers. The advantage of a merger lies in the fact that it is not necessary to transfer the property title for each asset individually from the acquired company to the acquiring one. In addition, shareholders of both companies need to approve a merger, noting that 2/3 of votes are necessary for the approval of a merger. Another way to purchase a firm is by buying its shares. This process can begin with the purchase of smaller lots of shares and may end with a public offer for purchasing the shares of the targeted company. The public offer is made directly by the firm to the shareholders of the targeted company.

### **There are several factors that may influence the decision to purchase shares or a merger:**

- In the case of share purchase, the shareholders' assembly (GAS – General Assembly of Shareholders) is neither necessary, nor do their votes matter. If the targeted company's shareholders do not agree with the offer, they are not asked whether they accept it and they do not have to sell the shares they hold.
- During a purchase of shares, the buying firm can deal directly with the targeted company's shareholders through a public offer, without considering the option to get in touch with the management or the board of the targeted company.
- In some cases, managers of the targeted company display a certain opposition and this behavior will increase the cost of share acquisition. Thus, costs are higher than the costs of a merger.
- Frequently, a small number of shareholders will hold an important lot of shares and thus the targeted company may not be completely absorbed. The complete absorption of a firm by another is accomplished through a merger.

**Policy of the management in case of mergers and acquisitions:** A firm may acquire another firm by buying all its assets. The formal vote of the shareholders of the targeted firm is required when their assets are bought. One advantage of this operation is that, although the firm that acquires the shares must still face a minority of shareholders (in the case of purchase of shares), this is not the case when buying assets. However, asset purchase entails the transfer of ownership of each asset and this practice makes the transaction more expensive. A more general, but less precise concept is the takeover. This operation refers to the transfer of control of a firm from a group to another group of shareholders. Takeovers can occur through acquisitions, through exerting control in the Board of Directors (BD) and through the privatization of public companies. Managers of the targeted companies frequently seek solutions to oppose the takeover. These actions against the takeover can be beneficial to the shareholders of the targeted firm if the buying firm makes a tempting offer. Thus, the managers of the targeted firm will fight to preserve jobs. Sometimes, the management can prevail if they improve the economic policies of the firm. Thus, shareholders may have an advantage even if the takeover did not take place. There are several ways in which the managers of the targeted firm oppose takeovers. One option is by changing the statuses of the firm so that conditions for the approval of a takeover are as hard as possible to fulfill, such as the obligation to have a large number of votes. In case of hostile takeovers, there are several variants of defense.

The best option for preventing such hostile attitudes from the management is to set forth very generous benefit packages for the management of the targeted firm, in the event of a takeover. The disadvantage of this method, called "golden parachutes" in the literature, is that it will make the takeover more expensive, and thus less attractive. However the costs entailed by the golden parachutes represent only a fraction of the costs for acquiring a firm. There are cases when another

tactic is used: in the literature, it is called the "poison pill" and is a sophisticated defensive tactic. When a firm intends to make a purchase by buying shares amounting to approximately 20% of the targeted firm, the latter will issue shares that will be distributed to shareholders at half price, except to the firm that intends to purchase them.

Enforcement of competition policy within the European Union developed together with the integration process. The transfer from a customs union to the single internal market was accompanied by a fine tuning of the tools used in the competition policy.<sup>[5]</sup>

Also, Art. 82 of the Treaty<sup>[6]</sup> on the Functioning of the European Union states that any abuse by one or more economic operators, who find themselves in a dominant position within the common market or in a substantial part thereof, is prohibited as long as it may affect trade between Member States. Such an abuse may consist of:

- imposing, directly or indirectly, the purchase or selling prices, or other unfair trade conditions;
- limiting production, distribution or technical development to the prejudice of consumers;
- in the case of trading partners, applying unequal conditions for similar transactions, thereby putting some of them at a competitive disadvantage;
- conditioning the signing of contracts upon the acceptance, by the partners, of clauses that entail supplementary obligations which, by their nature or according to commercial usage, are not connected to the subject of such contracts.<sup>[7]</sup>

Romania's Competition Law is in line with European legislation in the field and it extensively refers, in Article 5 of the Competition Law no.21 / 1996, to the following types of anti-competitive practices. As far as agreements between firms are concerned, from the legal point of view, there are two categories:

- > Legally structured agreements, which refer to agreements expressly or tacitly concluded between operators;
- > Not legally structured agreements, including concerted practices that refer to the conduct of economic agents in order to adapt to the competitive environment.

Removal of competitors from the market, limiting or preventing their access to the market and the free exercise of competition by other companies, as well as agreements not to buy or sell from / to certain economic agents without a reasonable justification, is an anticompetitive practice repelled at European and national level, both in Romania and in Moldova.

These competitive practices can be committed only intentionally, and it is then that they are punishable by law. There are times when they can be committed by fault, such as limiting the production, distribution, technical development or institutions (Art. 5 par. (1) letter (b)) according to Law no. 21/1996 amended and supplemented. There are cases when deeds referred to in the Competition Law and described as "anticompetitive" practices are punished by law as offences, if such practices do not significantly affect the competitive environment. Agreements between two or more economic agents may refer to the activity of supply of raw materials, conditions of production, business activities or any other element of the market. In fact, by these agreements, the aim is to increase profits by eliminating competition between the participants in the following ways: restricting production, rising prices, dividing sale areas, etc. The **concerted practice** is that conduct of economic competitors who adopt a similar behavior in the relevant market and this leads to restricting, limiting or distorting competition, with no prior agreement between them.

As far as economy is concerned, agreements can be "horizontal" and "vertical".

→ Horizontal agreements are made between economic competitors operating in the same market or in the same market segment.

→ Vertical agreements are made between economic agents that are operating in different markets or in different segments of the same market.

As a rule in the practice so far, we note that horizontal agreements may affect normal competitive environment more than vertical agreements, which may also lead to economic efficiency, as well as to beneficial effects on consumers. Accordingly, vertical agreements may be included in the category of agreements that are exempted from the provisions of art. 5 paragraph (1) of Law no. 21/1996, amended and supplemented. Other categories of agreements exempted from the category of anti-competitive practices are: "agreements for exclusive distribution", "agreements

for exclusive purchase", "research and development agreements", "specialization agreements", "agreements for transfer of technology and / or for the transfer of know-how", "franchise agreements", "agreements for distribution, servicing and parts during the warranty and post warranty period for motor vehicles", "agreements in the insurance sector".

### **Economically concerted operations and the need to declare them at the Competition Council:**

Economically concerted operations would significantly impede effective competition in the Romanian market or in a substantial part thereof, in particular by creating or developing a dominant position. An **economically concerted operation entails a lasting change** of control. This would stem from transactions such as the merger of two or more firms or parts thereof which were independent before, getting direct or indirect control by one or more firms over another / several other firms by acquiring shares / assets / contracts / etc. The internal restructuring within a group of companies / firms is not an economically concerted action in terms of the Competition Law.

**Economically concerted operations** exceeding certain limits of turnover must be declared at and assessed by the Competition Council. The current limits in Romania are:

- The RON equivalent of EUR 10,000,000 for the aggregate turnover of the respective firms and
- The RON equivalent of EUR 4,000,000 for the turnover in Romania, generated by each of and at least two of the firms involved in the operation.

International transactions which take effect in Romania must also be declared at the Commission if the turnover limit criteria are met.

Notification procedures to be undertaken before the Council of Competition can be simplified when the transactions intended by the parties do not raise questions, as far as competition is concerned. These procedures can be also extended, entailing certain investigations when the problems to be analyzed are complex both in terms of operation and of affected markets.

After the Romanian Revolution in 1990<sup>th</sup>, the merger has been widely used as a way of reorganizing of the companies. From the beginning, it was taken all the legal measures in order to ensure a legal protection of companies associates participating in the merger. <sup>[8]</sup>

### **Conclusions**

Mergers and acquisitions represent an important alternative to the strategies of internal development of a firm, as this allows a speedy entry of firms in foreign markets, resulting in an economy of "scale". They also allow the purchase of the needed know-how to enter a new field in a short time. At the same time, these operations of business expansion provide the opportunity to immediately have in place skilled and experienced staff <sup>[9]</sup>.

As a general rule, the concerted operation that fulfills the criteria regarding the level of turnover cannot be implemented until the Competition Council has issued a favorable decision.

An economically concerted action can be authorized provided that it does not impose significant obstacles to competition in the market in Romania or parts thereof.

Economically concerted actions can be approved under certain conditions, especially if they refer to certain agreements assumed by the parties, such as the lease of a business to a suitable buyer, removal of connections to competitors, adding or modifying clauses of acceptance in certain contracts.

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6. Paragraph (1) establishes the rule, that is the general prohibition applied to collusive, anti-competitive actions. Paragraph (2) refers to the common law consequences of the practices prohibited under the previous paragraph, namely that any such decision or practice is automatically void and may not be used or it cannot entail effects. Paragraph (3) states that some agreements or practices that fall under Art. 81 (1) may still entail beneficial effects, either in terms of competition, or in relation to other matters, and that positive effects may have precedence over anticompetitive effects;
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**Section II**

**Regional Development,  
Integration and  
Globalization**

## Considerations on the Right to Asylum

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### Abstract

*Hugo Grotius, considered one of the fathers of public international law, was the one who tried since 1625 to define the concept of asylum in the legal sphere in his writings, especially in his work "De jure belli ac pacis."*

*While internationally there is no concrete definition of the term asylum, the application for asylum is considered a fundamental human right that emerges from legal instruments related to this matter, adapted to the goal of cooperation of states at intergovernmental level and even national level, according to art. 14 of the Universal Declaration of Human Rights, which stipulates that "in case of persecution, everyone has the right to seek and enjoy asylum in other countries. This right may not be invoked in the case of prosecutions genuinely arising from a crime or from acts contrary to the purposes and principles of the United Nations".*

**Key words:** fundamental rights, the right to asylum seekers, the right to receive.

**J.E.L. classification:** K33.

### 1. Introduction

Regionally, the right to asylum is regulated by European legal systems, namely the European Court of Human Rights (ECHR), where, according to art. 3 of the Convention, "no one shall be subjected to torture or to inhuman or degrading treatment or punishment", nor may remove a stranger from their territory to a country where they risks exposing themselves to danger

Also, states must take into account the provisions of art. 8 of the Convention which refers to respect for private and family life. Paragraph 1 provides that „Everyone has the right to respect for his private and family life, his home and his correspondence. ", and paragraph 2 of the same article provides that "There shall be no interference by a public authority with the exercise of this right except such as it is required by law and constitute a democratic society, a necessary measure to national security, public safety or economic well-being country, prevention of disorder or crime, for the protection of health or morals, rights and freedoms of others. " States have the right to control the entry and stay of foreigners and the possibility to take action to remove those affecting public order and security. (European Convention on Human Rights, 1950)

The issue of asylum and the recognition as a refugee was under discussion by the European Union as well, because the free movement of persons is an important pillar of it, not only with regard to free movement of workers, but also citizens, stating their conditions of entry and residence, as well as their rights and obligations.

Member States have not been prevented from taking measures they thought necessary on asylum and immigration control. (Nastase et al, 2009, p. 180)

### 2. Historical aspects

The Dublin Convention of 15 June 1990, entered into force in 1997, ratified by 15 countries, is a multilateral treaty concluded between the EU Member States who establishes the principle that a single Member State is responsible for examining applications for asylum submitted by the same person, the tendency being to create a common view of keeping a record of asylum claims.

This procedure stops and prevents refugees to submit multiple applications for asylum to several states.

EURODAC was established by Council Regulation nr.2725 / 2000 for the comparison of fingerprints for the effective application of the Dublin Convention. This should create a database on asylum seekers in countries of the Schengen area. Database can be accessed by any member of the Schengen area to verify the accuracy of the data provided by asylum seekers.

Common rules of the European Union established criteria under which Member States should decide when and if they can handle a request for asylum: to the country in which the family members of the applicant live, the country living in at the time of submission, the country that issued the visa or where the point of entry into the EU was.

With the Maastricht Treaty signed in 1992 and entered into force in 1993, the concept of European citizenship was introduced, nationals of Member States are considered EU citizens. This concept has been used to support the free movement of citizens and members of their families, regardless of nationality, but retained immigration and asylum policies and the settlement of border crossings through issues of common interest, under the third pillar of the treaty, emphasizing on the concern for the security of states.

The Amsterdam Treaty, signed by EU countries in 1997 and entered into force in 1999, gave new powers to borders, immigration and asylum fields in the European Union, including the visa. Thus, with the entry into force of the Treaty, the asylum moved towards the first pillar of the European Community.

According to the Universal Declaration of Human Rights, the United Nations General Assembly adopted on 14 December 1967, the Declaration on Territorial Asylum which established the principles on which the states must base their practices relating to territorial asylum, as follows.

- Member States are obliged to respect asylum granted by a State in the exercise of its sovereignty ;
- each State assesses the legal ground of the asylum, respecting relevant international instruments ;
- if a state can not grant asylum or continuation of asylum, other countries must take steps to comply with its obligation;
- asylum seekers will not be turned away at the border, and if they entered the territory, they will not be sent to another State where there is a risk of persecution ;
- States will not permit persons to whom they have granted asylum to commit acts contrary to the principles of the United Nations.

In theory, the notion of asylum in public international law, can be defined as "the right of a sovereign state to grant entry and establishment on its territory of foreign persons prosecuted in their country for political activities, scientific, religious etc., that it is not in line with the legal order of the State". (Gheorghe I. et al, 2015, p. 18)

National legislation on asylum aims to establish the appropriate procedures through which asylum seekers can receive international protection or who are those that can be sent back to their countries of origin. The efficiency of the asylum system is essential in the process of protection.

If this system is fast, accurate and efficient, every asylum seeker who is truly refugee will receive refugee status, while those who do not need international protection will not benefit from it. (Adrian Năstase et al, 2009, p. 120)

The Romanian Constitution provides in Article 18, para. (1) that asylum is granted and withdrawn under the law, but such a law has not yet been adopted. Romania complies with international treaties and conventions on asylum to which it is part, namely the Universal Declaration of Human Rights and the UN Declaration on Territorial Asylum. (Adopted by the General Assembly on 14 December 1967)

According to Article 1. para. 2 of the Refugee Convention in Geneva in 1951, complemented by the Protocol on Refugees, signed at New York on 31 January 1967, a refugee is „*A person who owing to a well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion, is outside the country of his nationality and is unable or, owing to such fear, is unwilling to avail himself of the protection of that country; or who, not having a nationality and being outside the country of his former habitual residence as a result of such events, is unable or, owing to such fear, is unwilling to return to it.*”

The two concepts have many similarities and differences that customize them and do not allow to carry out any confusion. (Gheorghe et al, 2015, p. 20)



Among the similarities we can mention that the two represent forms of humanitarian protection of foreigners and are granted to the same type of people or foreigners persecuted for their opinions, beliefs, their political affiliation or social group, race, religion, nationality or those who are watching or if they have committed political offenses. Another similarity is that neither of the two forms of protection can not be granted to persons who have committed crimes against peace and humanity, war crimes or other crimes directed against the purposes and principles of the UN.

Tot o asemănare o constituie și faptul că cele două categorii de beneficiari ai celor două forme de protecție primesc din partea statului de primire, regimul național pe care îl dețin cetățenii proprii și se bucură de aceleași drepturi și obligații. De asemenea, nici azilanții și nici refugiații nu pot fi expulzați. Another similarity is the fact that the two categories of beneficiaries of the two forms of protection receive from the receiving state, the national regime their own citizens hold and enjoy the same rights and obligations. Also, no asylum seekers or refugees can be expelled. (Gheorghe et al, 2015, p. 23)

Because the two are more different than similar, the differences between them are more significant.

The two institutions differ historically. Thus, asylum began to take shape in the sixteenth century, while refugee status was barely mentioned by the UN Convention on Refugees in Geneva 1951.

Different is also the duration of the two forms of protection: the asylum is permanent, when the refugee is one immediate counter to an imminent danger, but temporary.

Concluzionăm că un refugiat poate să rămână cu acest statut fără să dobândească și pe cel de azilant, întrucât statul care a recunoscut unei persoane fizice statutul de refugiat este suveran să decidă dacă va acorda sau nu dreptul de azil aceleiași persoane. We conclude that a refugee can maintain this status without acquiring the asylum, whereas the state that recognized the individual refugee status is sovereign to decide whether or not to grant asylum to the same person.

### **3. The institution of asylum procedure**

The Regulation (EU) no. 604/2013 of the European Parliament and of the Council of 26 June 2013, known as the Dublin Regulation is applied in 32 European countries and was designed to establish which Member State should examine the asylum application lodged by nationals of third countries.

Thus, a citizen of a third country or a stateless person may submit first a request for international protection in the Member States in Romania. Filed application is analyzed by the Romanian authorities, and during its analysis, the citizen leaves the Romanian territory illegally and reaches Austria. The person is applying for international protection in Austria. At the time this person appears with a request for international protection lodged in both Romania and Austria. Given that the application for international protection lodged in Romania was the first application, Romania will be the Member State which has jurisdiction to consider the request for international protection lodged by third-country national or stateless person in Austria. Therefore, the citizen in question will be transferred to Romania.

According to EU law, the 4<sup>th</sup> Article of the Dublin Regulation, asylum seekers have the right to information regarding: applying for asylum only in one Member State, movement from one Member State to another during the process examination of the application for international protection, the right to a personal interview, the possibility of transmitting information to family members, relatives or other persons in a relationship of familiar nature with them, the opportunity to challenge a transfer decision and submitting, where appropriate, an application to suspend the transfer, the right of access to personal data, and to request that inaccurate data relating to the person be deleted if they have been illegally processed and procedures to be followed for the exercise of such data.

This information is communicated in writing in a language that the applicant understands or is supposed to understand.

The Dublin procedure takes from two weeks to two months. The Third-country national will be transferred to a period of 6-18 months to the Member State which has assumed responsibility,

where the procedure for international protection of that country will take place. (<http://igi.mai.gov.ro/detalii/pagina/ro/Procedura-Dublin/108> accesat 11 aprilie 2016)

The Eurodac system is a tool that works since 2003 following the adoption of Regulation (EC) no. 2725/2000 of 11 December 2000 concerning the establishment of 'Eurodac' for the comparison of fingerprints for the effective application of the Dublin Convention.

It has been improved by the adoption of Regulation (EU) no. 603/2013 of the European Parliament and of the Council of 26 June 2013 concerning the establishment of 'Eurodac' for the comparison of fingerprints for the effective application of Regulation (EU) no. 604/2013 establishing the criteria and mechanisms for determining the Member State responsible for examining an application for international protection lodged in one of the Member States by a third-country national or a stateless person and the demands of the law enforcement Member States and Europol for comparisons with EURODAC data to ensure law enforcement and amending Regulation (EU) no. 1077/2011 establishing a European Agency for the operational management of large-scale IT systems in the area of freedom, security and justice, which entered into force on July 20, 2015.

The asylum application must be examined under the procedural provisions, under Directive 32/2013 / EU on common procedures for granting and withdrawing international protection, and on the basis of Directive 95/2011 / EU minimum standards.

Applicants for international protection are entitled to free legal and procedural information under Directive 32/2013 / EU on asylum procedures and in the case of a negative decision at first instance, Member States shall provide, on request, additional information to clarify the reasons for such decisions, and how to appeal.

Legal assistance and representation are granted free of charge, both at first instance and on appeal procedures. They may be refused if a court or other competent authority considers that the applicant's appeal has no tangible prospect of success. In the latter case, under Article 20 of Directive 32/2013 / EU, Member State shall ensure that the applicant is entitled to an effective remedy against that decision before a court

#### **4. Conclusions**

Analyzing from a political perspective the asylum, we conclude that it shows a number of benefits and drawbacks. Thus, the expulsion of any refugee seems odious given that his life or personal liberty would be threatened on account of race, religion, nationality, membership of a particular social group or political opinion, but sometimes it is necessary and mandatory, if put in threatening the national security and safety of the state, the European Union and prejudices purposes and principles of the United Nations.

However, no matter how positive or negative the asylum is, attention should be directed on the obligation of each Member State to provide hospitality and to restore the civil rights of asylum seekers.

At European level, it is necessary to adopt concrete and effective measures at the EU border for the management of migration flows. Meanwhile, it is necessary to improve the response capacity of the EU to external borders issues through consultation with Member States, in accordance with current national and international legislation.

Astfel statele membre ale UE trebuie ajutate în eforturile lor de a consolida capacitatea de primire, sistemul de azil și de gestionare a frontierelor externe cu respectarea deplină a drepturilor omului și cerințele de siguranță, resurse financiare adecvate și logistica necesară întăririi capacităților țărilor din Balcani, de a gestiona frontierele pentru primirea azilanților și asigurarea în mod corect a fluxurilor viitoare de azilanți. Să se instituie pe viitor cooperarea cu țările lider din zona din afara UE, de exemplu Turcia, care este o veritabilă țară de tranzit.

Thus the EU Member States should be assisted in their efforts to strengthen reception capacities, the asylum system and management of external borders in full respect of human rights and safety requirements, to find adequate financial resources and provide logistics capacity building of the Balkan countries, to manage borders for receiving asylum seekers and ensuring correct future flows of asylum seekers and to establish future cooperation with leading countries in the area outside the EU, for example Turkey, which is truly a transit country.

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## Considerations on the Right to a Healthy Living Environment

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### Abstract

*Among the fundamental rights of "third generation" rights of solidarity, the right to a healthy and ecologically balanced environment is characterized by a special dynamic of its recognition and its legal guarantee. Originally internationally proclaimed, constitutionally and legislatively recognized by states, this right is perceived with difficulty, judicially, by the system of the European Convention on Human Rights and Fundamental Freedoms and by European law. In the absence of specific legislation, it is recognized and guaranteed, especially through procedures and jurisprudence.*

*The Stockholm Conference of 1972 organized by the UN and its decisions have spurred socio-economic and legal-constitutional concerns of consecration of environmental protection. Virtually any constitution that was adopted or substantially modified after that time also included provisions on the environment.*

*In this regard, more frequent constitutional consecration is positive and paves the way for his inclusion among post-modern fundamentals right. It is considered that the right to environment is a subjective right to third parties whose compliance with can be requested by any natural or legal person, public or private.*

**Key words:** fundamental rights, environmental protection, the right to a healthy environment.

**J.E.L. classification:** K33.

### 1. Introduction

Although international regulations are important, the procedural safeguards to effectively achieve goals are that the fundamental right to a healthy environment is reduced to the procedural dimension at EU level, where in the past decade several documents were tools for the implementation of environmental policies, complementing the legislative environment. However, although the right to a healthy environment is not stated in the European Convention on Human Rights, the European Court of Human Rights did not hesitate to rule in cases involving violations of this right, because it represents an interference in the private lives of individuals. (Mazilu, 2006, p. 121)

Legislative developments require the establishment of insurance on environmental issues, to be signed necessarily by companies that have activities dangerous to the environment and optionally for other companies, so no matter who causes environmental damage, the existence of compensation for the affected and taking action to limit the damage to restore affected items would be certain

What can not be denied is that clear and strong legislation is needed to protect the environment. The environment has given us some warning signals and continues to do so and the duty of decision makers is to find the best policy solutions to ensure a healthy environment.

### 2. Guaranteeing the right to a healthy environment in Europe

The Community treaties do not expressly mention the right to a healthy environment. To protect such an essential right, the European Court of Justice was often inspired from the constitutional

traditions common to the Member States of the Union and from international treaties to which they are parties. The key treaty in this respect is the European Convention on Human Rights.

The phrase "environment" is not reflected in the wording of the European Convention of Human Rights, much less the concept of the right to a healthy environment, so you might say that the right to a healthy environment is not part of group rights and freedoms they generate.

Thus, the Convention does not state directly whether an individual has a right to a healthy environment. In fact, the first environmental causes, that were advanced to the Court were based on the idea that the Convention does not provide for the right to protect the environment or environmental quality standards. Most times, the Convention has been used as support for numerous applications, whose object was to provide an acceptable level of environmental quality

The main issue is whether individuals may require a subjective right to a healthy environment, with a corresponding obligation of States before an international judicial body. What later the Convention organs wanted is changing the right to a healthy environment in an individual right protected by the Convention. Council of Europe member countries did not accept an additional protocol to the Convention to consider this right as they do with other fundamental rights. (Duțu, 2007, p. 232)

Analyzing the European Court of Human Rights jurisprudence, we found that the violation of the right to a healthy environment in relation to other fundamental rights expressly enshrined was discussed, such as the right to life, right to privacy and family life, right to property, the right to a fair trial the right to freedom of expression.

The European Court of Human Rights has identified, both through its jurisprudence and the European Commission, that certain types of degradation of the environment with serious consequences for individuals, or even failure of public authorities to obtain information about the risks that may arise in connection with the environment and which individuals are exposed to, may constitute a violation of other rights protected by the Convention, such as the right to life enshrined in art. 2 of the Convention, the right to respect for private and family life enshrined in art. 8 paragraph. 1, or property rights, stipulated in art. 1 of Additional Protocol No. 1.

ECHR case law establishes that when a government engages in conduct of hazardous activities, such as nuclear testing, which could have "adverse consequences hidden" on the health of people attending, compliance with art. 8 involves the installation of an "effective and accessible procedure" to allow those concerned to seek adequate information. (Popescu, 2006, p.120)

The Convention, art. 10, obliges states to provide environmental information to the public, which, by their nature, are not directly accessible and which would not otherwise be made known to the public than through public policy action. Thus, it acknowledged the existence of the right to environmental information.

The right to a healthy environment requires committing to obligations to protect the environment. As fundamental rights form the content of the relations between individuals and the state, it means that these rights generate corresponding obligations to the state which recognizes and guarantees. So goes out the obligation of states to take appropriate legal, administrative and other measures necessary for the implementation of the right to a healthy environment (Petrescu-Mag, 2011, p. 231)

The content of this right is the evident obligation of each individual to prevent pollution, cessation of any activity that produces pollution and repairing the damage suffered by this pollution, but also a collective dimension, which implies an obligation of States to cooperate in preventing and combating pollution, protect natural environment, regionally and internationally.

In terms of human rights, the right to a healthy environment and quality is a fundamental new feature whose nature does not change with time or due to changes in circumstances.

### **3. International Environmental Concerns**

The interest in environmental issues appeared in 1972 at the first United Nations World Conference held in Stockholm. This was the first global environmental conference, attended by delegates from 114 countries. The most important document adopted at the Conference was "The environmental statement" which comprises of 26 principles on the rights and obligations of States

in this field and means of developing international cooperation.

The importance of it is that the document clearly states, for the first time, the link between environmental protection and human rights.

Thus, Principle 1 of the document states that "Man has the fundamental right to freedom, equality and living conditions satisfactory in an environment whose quality allows him to live in dignity and prosperity. He has a sacred duty to protect and improve environment for present and future generations (...)" The document establishes a link between human rights and environmental protection, the latter quality being an essential factor for ensuring a satisfactory life, but, nevertheless, not directly recognizes a right to environment. Stockholm Conference had the merit of having addressed the issue of environmental protection (Marinescu, 2008, p. 90).

From an institutional point of view, the bodies established by the UN or UNEP and the Environment Fund, helped financially actions in favor of the environment and played a coordinating role for international organizations, both for the United Nations system and regional ones.

Among the main organization established by the UN are the Environment UN Programme and the UN Commission for Sustainable Development. The United Nations Environment was established immediately after the United Nations Conference on the Human Environment held in Stockholm in 1972, and covers the following areas: assessing the state of the environment, conservation and protection of biodiversity, chemicals management, water protection, coastal protection, protection soil, protection of the ozone layer, climate change, sustainable energy, urban pollution, industrial pollution control, sustainable consumption . (Duțu, 2007, p. 230)

Under the auspices of the UN, a number of international documents that have governed international cooperation in different sectors of environmental protection were developed and adopted.

UN Conference on the Law of the Sea, by adopting the Montego Bay Convention of 10 December 1982, established the legal framework of the protection of the marine environment from pollution. Other general rules were contained in other international instruments developed and adopted under the auspices of the UN. Thus, the Geneva Convention of 18 May 1977 banned the use of environmental modification techniques for military purposes or any other hostile purpose. It also concerned covering any technical modification due to a deliberate manipulation of natural processes, the dynamics, composition or structure of the Earth, including its biotopes

The Convention signed in Aarhus on 25 June 1998 on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters presents a special contribution in the justness of the right to a healthy environment at European level, of particular importance because it recognizes " that everyone has the right to live in an environment adequate to its health and welfare (...)", and" considers it to be able to maintain this right (...) citizens must have access to information, be entitled to participate in decision making and to have access to justice in environmental matters (...)". By Decision 2005/370 / EC., the Aarhus Convention was approved on behalf of the Community, signed by the European Community and its Member States in 1998. The Convention, in force since 30 October 2001 based on the idea that more raise awareness and citizen involvement in environmental issues will lead to better environmental protection . (Duțu, 2007, p. 230)

Thus, the Convention establishes rights and obligations regarding access to information, especially regarding deadlines for submission and the grounds on which public authorities may refuse public access to certain types of information. Refusal may be admitted if the public authority does not hold the requested information; if the request is unreasonable or formulated in too general; if the request relates to documents that are not yet developed.

#### **4. Conclusions**

The fundamental right to a healthy and ecologically balanced emerged from the ECHR case law interpreting the way of art. 8.1. and art. 6 of the European Convention and is considered an individual right, in the category of "civil rights". Since it is not considered an intangible right, it may be exempted in exceptional circumstances, and States Parties may limit it by statute.

Looking at case law of the European Convention on Human Rights we can see that they

discussed the violation of the right to a healthy environment in relation to other fundamental rights enshrined expressly.

In conclusion, there is no provision in the Convention and its additional protocols to explicitly the right point to a healthy and ecologically balanced environment.

By decision *López-Ostra v. Spain* 1994 European Court of Human Rights opened its doors in terms of human rights protection against environmental pollution. This judgment is the first indirect recognition by the violation of Art. 8 in context of pollution, of the existence of a human right to a safe and healthy environment .(Popescu, 2006, p.120)

The text of the International Declaration of Human Rights and the environment, adopted in Geneva in 1994 ranged important determinations of the content fundamental to a healthy environment. According to the doctrine, the document is based on the principles of the most important international documents on human rights and the Stockholm Declaration of 1972, the Rio Declaration and Agenda 21 in 1992.

In terms of human rights, the right to a healthy environment and quality is a relatively new fundamental right, whose nature does not change with time or due to changes in circumstances. Moreover, the universal respect of human rights and fundamental freedoms was expressly proclaimed as part of the common interest of the entire community. Moreover, it should be acknowledged and recognized that the right to a healthy and ecologically balanced environment is a natural right, with the same fundamental importance as the right to property and in close connection with it

Given the importance of this right and the need to cover shortages caused by the fact that he does not enjoy an express consecration within the Convention, the European Court of Human Rights has used the technique of "protection by default" that allowed the extension of the protection of rights guaranteed by the Convention on rights which are not covered by it.

The European Convention on Human Rights, which recognizes civil and political rights and freedoms, guarantees the right to a healthy environment as a right of third generation rights falling within the category of solidarity. Through broad interpretation of the goal of rights expressly regulated by the European Court of Human Rights, the right to a healthy environment was linked to the right to privacy and considered a component of this right, thus leading to indirect protection of environmental right. (Petrescu-Mag, 2011, p. 231).

After two decades since the first world conference on environmental protection, despite the results achieved in terms of international cooperation, the planet's environment has continued to deteriorate in a general way, and a new measure, namely, the second conference of United Nations on environment and development was held in Rio de Janeiro in 1992. The Declaration is largely similar to the one in Stockholm, enshrining rights and responsibilities of states in relation to environmental protection. The most important invocation of the document consists of conjugation of two words; henceforth environmental protection and development are closely related .

The Rio Declaration of 1992 has not achieved any progress in recognizing material right to a healthy environment, the document is relevant because its provisions enshrine a series of rights that are considered procedural rights derived from the substantive right to the environment: the right to access environmental information, public participation in decision making and access to justice in environmental matters. (Duțu, 2007, p. 230)

The first international legal instrument which explicitly enshrines the right to the environment was adopted by the Conference of African Unity in determining the "African Charter on Human and Peoples". The document is important because it comes from a cooperative structures belonging to third world countries where due to economic and social difficulties environmental concerns are not a priority(Brașoveanu, 2014, p. 190)

The existence of an adequate institutional support is useful for both development and adoption of legal rules governing international cooperation on environmental protection and ensuring their subsequent completion and compliance.

Institutional cooperation on the environment is expressed especially through the "network" of international intergovernmental organizations. Regarding the involvement of NGOs, intergovernmental nature of the vast majority of international organizations is a limit.

The oldest and most comprehensive European organization was created as a subsidiary body of the UN Economic and Social Council in 1947 in anticipation of the reconstruction of Europe,

raising economic activity continental and international changes.

The state of the environment directly affects our lives and health. It takes responsibility to breathe clean air, clean water to drink and to use the conditions of life that nature offers us. Therefore, in order to live in a healthy and prosperous environment, it is our duty to maintain the natural balance of the environment and help to purify and protect areas affected by pollution.

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## FDI in European Economic Architecture. The Case of Romania as an EU Member State

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### Abstract

*The arrangements of regional economic integration have substantially reconfigured the pattern of global economy after the Second World War, due to their structural effects, but especially to the new forms of interdependence which they have created between economies. Our study is based on the hypothesis that the economic integrated areas are more attractive to investors, especially to the large ones such as multinational corporations. Analyzing the flows, respectively the ratio of inward stock of foreign direct investment to GDP in EU, and Romania, as well as the main indicators assessing the presence of multinational corporations in the Common Market and in our country too, we have found that the creation of a larger market and deepening of economic integration has fuelled a stimulus for investments, although the preference of investors, especially of the non-Europeans, have been quite highly concentrated on certain locations/countries.*

**Keywords:** international business, multinational corporations, European integration

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

### 1. Introduction

During the post-war era, under the impetus of the initiation and the deepening of the integration process in Western Europe, Regional Integration Agreements (RIAs) have proliferated, capturing the attention of academicians through their effects upon participating countries, but also on the third countries. Among other things, a growing body of literature frequently argues that the formation of a larger market creates a stimulus and increases the opportunities for investments (Brown, 2000, p. 401; Dunn & Mutti, 2004, p. 172; Pugel, 2004, pp. 253-254; Carbaugh, 2008, p. 271). If such investments require a certain level of sales to ensure their profitability, then the effect of gaining advantages from scale economies can lay at the basis of the decision of investment; this decision is also influenced by the opportunities which intense competition on the larger market offers for the reduction of production costs (Pugel, 2004, pp. 253-254).

As regards the flows of Foreign Direct Investment (FDI), the response to a RIA depends to a large extent on the changes that occur in the business environment and the location advantages of participating countries (Blomström & Kokko, 1997).

Obviously, some FDI have been and continue to be motivated mainly by the desire to elude the barriers to trade, in which case a larger market creates an optimum environment for implantation of the foreign firms. In other cases, FDI are motivated by the desire of investors to exploit the input/output markets from outside the national boundaries through the activities in which the affiliates are the most efficient organizational structure (Blomström & Kokko, 1997).

Investigating the potential effects of RIAs in the various time horizons, Baldwin & Venables (1995, p. 1614) have identified the possibility for the occurrence of *investment creation* and *investment diversion*, as important effects in the medium term; in addition, the potential for such effects was one of the central issues of the public debates on the RIAs especially in North America

and Europe.

## 2. A brief perspective on the inward investments pattern in the EU

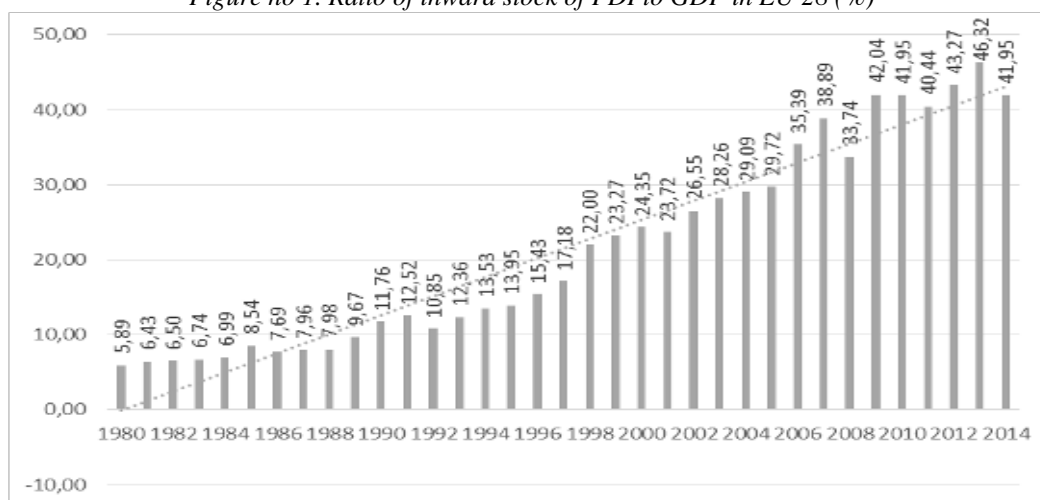
At the origin of the project of European integration was the conviction that economic and monetary integration, ensuring the four freedoms of movement aforementioned in the Rome Treaty (1957), will create an environment conducive to developing of trade and investment flows, which will mutually reinforce each other (Liebscher, 2007, pp.3-7). Liebscher suggests that the closer linked the countries will be through trade and investment, the more synchronized their business cycles would be, which could compensate the costs generated by the loss of autonomy in the common trade policy and monetary policy. Empirical evidences show that those RIAs which have given rise to large sized markets, like the European Community, have indeed attracted significant inward flows of FDI. In this respect, Ireland is a relevant example; after its accession to the EEC (1973) Ireland has attracted multinational companies which have used it as a platform for the exports to the rest of Europe. Before 1993, the affiliates of foreign companies achieved around 63% of the gross production and hired about 45% of the total labor force in manufacturing sectors; the most affiliates had their parent companies in USA (40%), Great Britain (16%), and Germany (15%) (Barry & Bradley, 1997).

As regards the FDI, in 1970 Ireland were attracting only a modest flow (32 million US dollars); starting with 1973 (52 million USD), the trend has become ascendant and has reached the level of 45207 million dollars in 2012; from another point of view, the stock of FDI has increased from 35444 million USD in 1980 to about 369168 million USD in 2014 (UNCTAD, 2016). The USA and UK have kept their "top" positions as "parent" countries with more than a half of the flows of foreign investments in Ireland; in 2005, USA contributed with 35,000 million dollars to the flows of FDI that fuelled the Irish economy, followed by Great Britain with about 34,000 million dollars (UNCTAD, 2007).

A similar phenomenon has also been noticed after the creation of the European Single Market; foreign investments flows towards the economies of Western Europe have been considerably invigorated; it is expected to be maintained this trend in the coming years too, especially if efforts for deepening of common market will materialize (UNCTAD, 2016).

We believe that, as Chesnais, et al. (2000, p. 4) argues, a more relevant indicator of the attractiveness of an economic space is the ratio of inward stocks of FDI to GDP; data compiled in Figure 1 shows that after the launch of the Single Market Program (1986) this indicator has recorded a constantly ascendant trend.

Figure no 1. Ratio of inward stock of FDI to GDP in EU 28 (%)



Source: Calculated using (UNCTAD, 2016)

To illustrate this tendency first we can invoke the example of those countries which, in 1986, were already EEC members, such as the United Kingdom, Belgium, Denmark, France, the

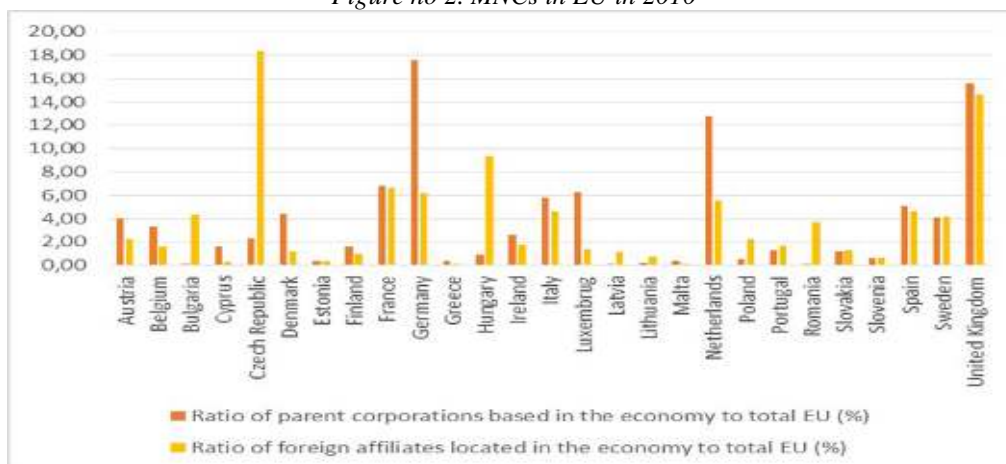
Netherlands; but conclusive is especially the example of countries which have joined later the European Economic Community such as Austria, Finland, Sweden etc. in which the FDI flows have become more consistent after the moment of their accession to the EU. The augmentation of the attractiveness of the countries which are part of RIAs is a phenomenon also highlighted in other parts of the world. Thus, another example is Mexico; investments boom was strong after the Agreement of NAFTA has entered into force; so, if in 1992 foreign investments in Mexico was only about 4393 million dollars, in 1994 they reached 10973 million US dollars; in the last years, the inward flows of FDI have increased to about 44627 million USD in 2013 (UNCTAD, 2016).

Mexico continues to be, alongside with Brazil, the main receiver of FDI in Central and South America. In 2010, for example, in Mexico were operating about 6364 affiliates of some foreign companies, which constitute more than 35% of total foreign affiliates in Central and South America; the next was Brazil, in which were operating about 4547 foreign affiliates (25 % of total affiliates in Central and South America) (UNCTAD, 2011).

At the same time, in the European Union were operating about 310074 affiliates of multinational corporations, accounting a share of around 83 % of total foreign affiliates in the developed economies and about 34% of the total foreign affiliates in the world (UNCTAD, 2011).

The distribution of both the parent companies, and the affiliates located in each of the 28 Member States is exposed in the following figure.

Figure no 2. MNCs in EU in 2010



Source: Calculated using (UNCTAD, 2011), Web table 34

We can take note of the fact that Czech Republic, United Kingdom, Hungary, France, Germany, the Netherlands and Italy are the most attractive countries to MNCs. The preference of non-European investors (especially of those from the USA, Japan and Canada) for the EU economic area is highly concentrated on UK; in fact, unlike the other EU members, UK has attracted more investments from outside the EU than from the inside (Chesnais, et al., 2000, pp. 3-9).

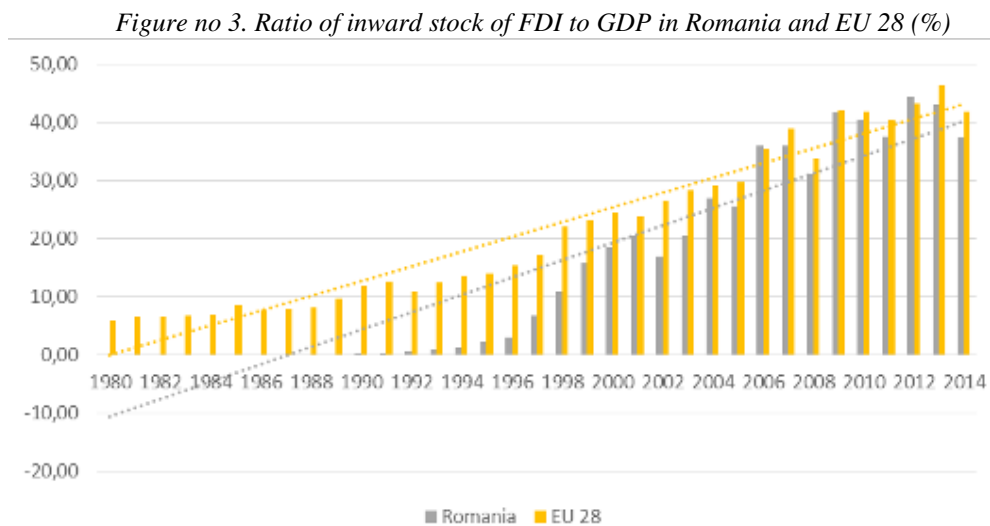
Jones & Wren (2006, p. 22) explain this propensity mainly describing the UK as a "natural destination" for MNCs, created by the English language and the potential of the British market. Furthermore, we could mention the geographical location of the UK, its tradition of the most powerful trading nation in the world, the historical relations between the USA and the United Kingdom a.s. In the next years, as the common market has extended, U.S. companies and not only, have also focused their interest towards other European countries, among the most preferred being Germany and France (considered, from the political point of view, the engine of integration), Ireland, the Benelux countries etc. (Jones & Wren, 2006, pp. 22-25). More recently, the new EU Member States have begun to captivate the Non-European investors.

### 3. The Case of Romania

In 1993 Romania has engaged on the road to EU accession signing the European Agreement; the year 2000 was the moment of the official launch of the negotiation process for accession of our

country to the EU, and later (2002, 2003) The European Council has also stated its formal support for the attainment of this objective. These first steps seem to have had an echo in the business environment. So, the empirical evidences show that the inward FDI flows have increased considerably since 2004, reaching a peak in 2008 (13492 million of USD); on the other hand, inward stocks of FDI have raised constantly after the year 2000, exceeded 74 million of USD in the most recent years (UNCTAD, 2016).

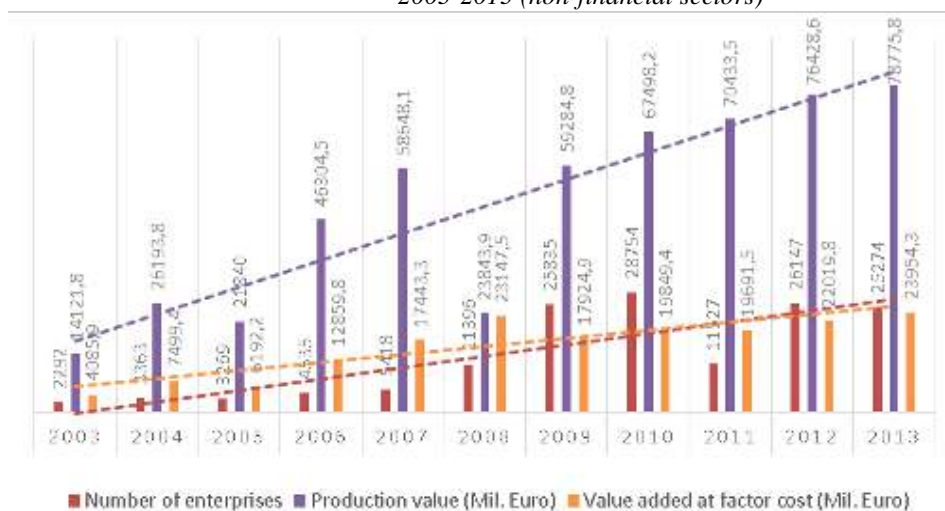
As regards the ratio of the inward stocks of FDI to GDP, Romania is below the European average, but we can see in the next figure that the gap has considerably reduced starting with the previous years of accession, thus joining the trend in other EU economies.



Source: Calculated using (UNCTAD, 2016)

The presence of MNCs in Romanian non-financial sectors is assessed through a set of indicators of whose values for the post-2003 period, shown in figure 3, support the conclusion that the initiation of the procedure for EU accession has fused the interest of foreign corporations toward Romania.

*Figure no 4. The main indicators of foreign control of enterprises in Romania during 2003-2013 (non-financial sectors)*

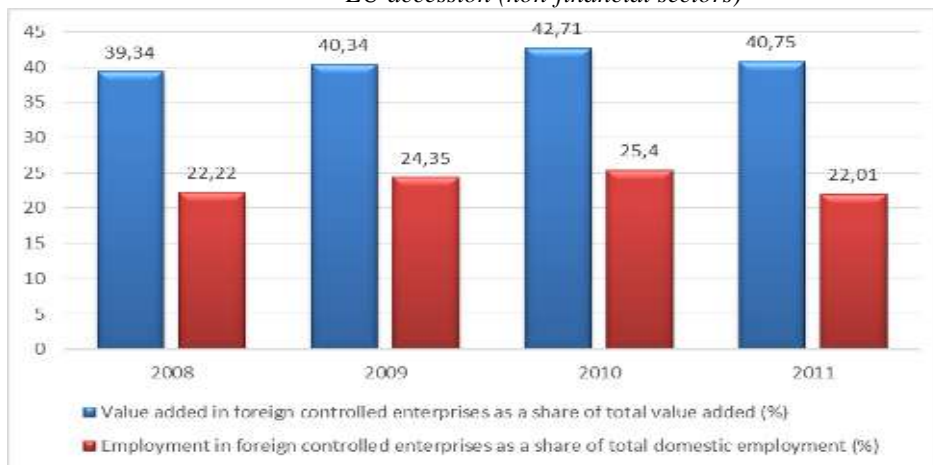


Source: Processed using (EC, 2016)

Thus, after the year 2003 the growing of number of foreign controlled enterprises, the value of the production in these businesses, and the augmentation of value added in these entities have become much more evident. The relative importance they have in the Romanian economy (figure

4) is reflected by their quite high contribution to value added (about 40%); from this point of view, Romania is ranked on the 6<sup>th</sup> position of all the EU Member States, after Ireland (56%), Hungary (51.8%), Estonia (43.7 %), Czech Republic (42.9%), and Luxembourg (42.4%) (EC, 2016). But, due to the fact that these entities absorb only 22 % of total employment, we are entitled to formulate the conclusion that in Romania MNCs are most significant attracted by the sectors which use performant technology (knowledge-intensive sectors) (EC, 2016).

Figure no 5. Value added and employment in foreign controlled enterprises in Romania after EU accession (non-financial sectors)



Source: Processed using (EC, 2016)

Prior to the year 2000, the attraction of big foreign investors for the Romanian business environment has been pretty modest. More than that, as shown above in figure 3, before 1990 stocks of FDI in Romania were null. The most business relations with foreign MNCs took the form of economic cooperation (coproduction, commercial licenses), and France (by companies such as Renault, Citroën, Aerospace) seems to have been the most preferred partner of the former communist regime (Chivoci, 2015).

#### 4. Concluding remarks

The economic architecture of European Union is founded mainly on the Single Market as a business environment thought to fulfill the free movement of goods, but also of capital, services and persons. During the time, the advantages offered by this economic area, especially the opportunities derived from the exploitation of economies of scale and enhancement of efficiency have attracted the interest of investors of a large scale such as multinational corporations. MNCs are omnipresent actors in the European economy, their operations covering almost all the economic activities. Empirical evidences illustrate clearly that the expectations that have fuelled the project of European construction have materialized in the growth of trade and investment flows as the deepening of the common market. The focus of investors was fairly concentrated on certain locations/countries (UK, Germany, France, the Netherlands, etc.), depending on the advantages of location and other specific factors (e.g. language, stability of the business environment, the structure of the ex-ante investment flows s.o.). Another conclusion of the study is that in the vast majority of countries which have acceded to EU, including in Romania, the boom of investments was triggered in the ante-accession years, and the veil has also maintained after that moment, depending on the regional or global economic conjuncture, too.

As regards our country, signing the European Agreement (1993) has outlined a perspective that has created a stimulus for investors; the statistical data highlights beyond doubt that starting from the middle of the 90s, the ratio of the FDI inward stocks to GDP has increased continuously. During the same time, and especially after 2000, the presence of MNCs in the Romanian economy has become more and more visible; in the last few years their contribution to the creation of value has reached about 40% of total, but the lower rate of employment allows us to conclude that the

interest of these large economic actors are focused mainly to the knowledge-intensive sectors, in which they could valorize the most effectively their technological advantages, and lesser to the labor-intensive sectors.

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## **Are the Investments from Structural Funds Meeting the Citizens’ Expectations? – Evidence from Sofia and Bucharest**

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### **Abstract**

*In 2007, the Cohesion policy promised to improve the attractiveness of cities across the European Union, addressing issues such as their accessibility, adequate services and environment preservation. Now that the programming period is concluding, achievements made in this direction must be scrutinized in order to assess if indeed the expectations of citizens living in these cities were met or not. In this context, the paper focuses on the capital cities of 2 countries for which 2007-2013 was the first programming exercise of structural and cohesion funds, namely Sofia and Bucharest. The paper presents an analysis of the projects implemented in these cities by the local authorities, comparing the results to the expectations of their citizens as reflected by the main conclusions of the surveys regarding the quality of life published by the European Commission in 2007. The analysis aims to contribute to the further improvement of the future Cohesion policy.*

**Key words:** structural funds, regional development, quality of life, cohesion policy, partnership

**J.E.L. classification:** O18, R50

### **1. Introduction**

Both Bulgaria and Romania joined the European Union (EU) in 2007, becoming at the same time beneficiaries of the Cohesion policy, a policy that addresses the development gaps between the different regions of the EU. Before the beginning of the implementation period, the European Commission presented the main priorities of the policy, which included, among other, the improvement of the attractiveness of cities, focusing on accessibility, level and quality of services provided and environment preservation (European Commission, 2006, p.14).

In Romania, under the objective of Convergence, 7 operational programmes were designed and implemented. These programmes had an initial allocation of EU funds of 19.213 million euros and targeted investments in areas such as transport, environment, human resources, administrative capacity, development of the regions, competitiveness and technical assistance for the authorities involved in the implementation of the programmes (Government of Romania, 2007, p. 154).

In Bulgaria, a similar list of 7 operational programmes was created for 2007-2013, covering the development areas mentioned above and having a total initial EU allocation of 6.674 million euros (Republic of Bulgaria, 2007, p. 103).

The capital cities of both Bulgaria and Romania, namely Sofia and Bucharest, benefitted from the EU assistance within the 2007-2013 operational programmes. The purpose of this paper is to analyze whether this financial assistance focused on the areas of development considered important by their citizens or not and if any improvement in the citizens’ perception has been achieved between 2006 and 2015.

### **2. Methodology**

The analysis presented in this paper was performed in 3 stages. First, the expectations of the citizens of Sofia and Bucharest were identified from the main conclusions of the survey regarding the quality of life published by the European Commission in 2007. The survey was performed on

500 individuals, randomly selected from each city (in this case Bucharest and Sofia), who answered 23 questions regarding life’s quality in the city (European Commission, 2007, p. 3). The expectations were built on the areas where the perception of the citizens was negative (over 50% degree of dissatisfaction).

In the second stage, the response of the local authorities was established, in terms of projects implemented by the municipality and administrative subdivisions of the municipality in both Bucharest and Sofia. The projects implemented in Sofia were identified using the national database of projects, fed with data from the Bulgarian monitoring system of structural instruments, publicly available at <http://umispublic.government.bg/prProcedureProjectsInfo.aspx?op=-1&proc=-2&clear=1>. Three cumulative criteria were used in the selection of projects: projects implemented by the Municipality of Sofia, projects that focus on the city of Sofia and not on the other districts of Sofia metropolitan area and projects finished or in implementation.

The projects implemented in Bucharest were identified using also the national database of contracted projects, made available at <http://old.fonduri-ue.ro/baza-de-date-proiecte-contractate>, by the Romanian Ministry of European Funds. This searchable database is fed with information from the Romanian monitoring system of structural and cohesion funds SMIS. The projects were filtered by location (Bucharest city) and then by beneficiary (Municipality of Bucharest and the city halls and councils for the 6 administrative subunits of Bucharest).

The projects identified were grouped into categories according to their scope, the amounts actually spent being transformed from the national currency (lei and leva) into euro using the Inforeuro exchange rate for May 2016.

Finally, in the third stage, the projects were mapped on the main causes of dissatisfaction of the citizens of Sofia and Bucharest, as expressed in 2006. In order to observe any improvement in their perception, following the implementation of the projects, the results of a similar survey published in 2016 by the European Commission was used.

### 3. Results

According to a survey performed in 2006, most citizens of Bucharest (79%) and of Sofia (87%) were satisfied, in general terms, with living in their city (European Commission, 2006, p.5). Nevertheless, the survey also highlighted some areas causing large dissatisfaction among citizens, as reflected in Table 1.

*Table no. 1 Main causes of dissatisfaction of citizens in 2006*

<b>Sofia</b>	<b>Bucharest</b>
1. Air pollution in the city (92% dissatisfied)	1. Air pollution in the city (91% dissatisfied)
2. Cleanness of the city (90% dissatisfied)	2. Good and reasonably priced housing (87% dissatisfied)
3. Noise (80% dissatisfied)	3. Noise (81% dissatisfied)
4. Public green spaces (74% dissatisfied)	4. Cleanness of the city (81% dissatisfied)
5. Good and reasonably priced housing (70% dissatisfied)	5. Healthcare services in hospitals (63% dissatisfied)
6. Public transport (67% dissatisfied)	6. Administrative services (61% dissatisfied)
7. Administrative services (60% dissatisfied)	7. Finding a good job (59% dissatisfied)
8. Sport facilities (55% dissatisfied)	8. Public transport (53% dissatisfied)
9. Healthcare services in hospitals (53% dissatisfied)	9. Healthcare services offered by doctors (52% dissatisfied)

Source: [http://ec.europa.eu/regional\\_policy/sources/docgener/studies/pdf/urban/survey\\_annex.xls](http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/urban/survey_annex.xls)

In both cities, the first cause of dissatisfaction was the pollution of the air, over 90% of respondents declaring themselves dissatisfied in this respect. Although, the causes of dissatisfaction were similar in both Bucharest and Sofia, some differences can be observed. As such, citizens were highly dissatisfied with the public green spaces and sport facilities in Sofia, which was not the case for Bucharest. Healthcare services both in hospitals and offered by doctors were an important cause of dissatisfaction for people in Bucharest and to a much lesser extent for people in Sofia.

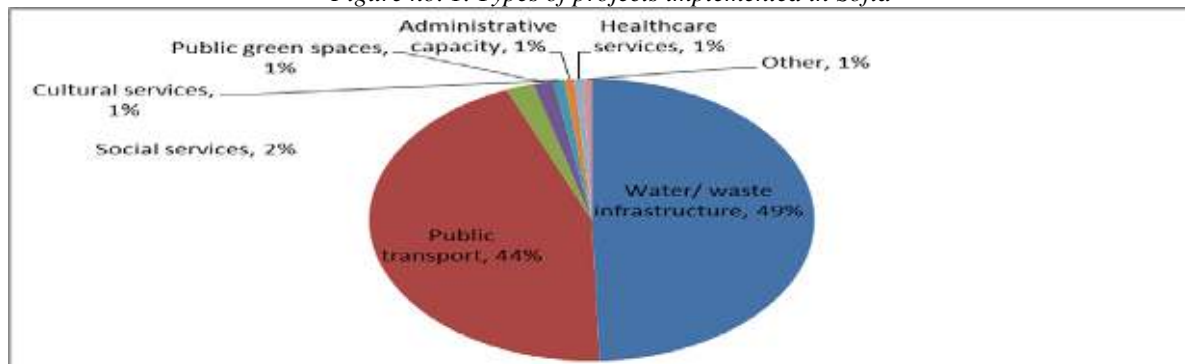


Dissatisfaction with the services provided by the public administration was high for both cities (over 60%).

The perception of the citizens described above reflects the living conditions in Sofia and Bulgaria before the start of the implementation of the 2007-2013 programmes, financed within the EU Cohesion policy. A wide range of investment opportunities was offered by these programmes, opportunities also available to the local authorities responsible for the administration of these cities.

As such, in Sofia, for the 2007-2013 programming period, 34 investment projects were identified that were implemented by the Municipality of Sofia and which were focused on the city of Sofia. The total value of the payments made for these projects was 323 million euros. As can be seen in Figure 1, most of the investments made regarded the water/waste infrastructure of the city and the public transport infrastructure and services (about 93% of the total amount).

Figure no. 1. Types of projects implemented in Sofia

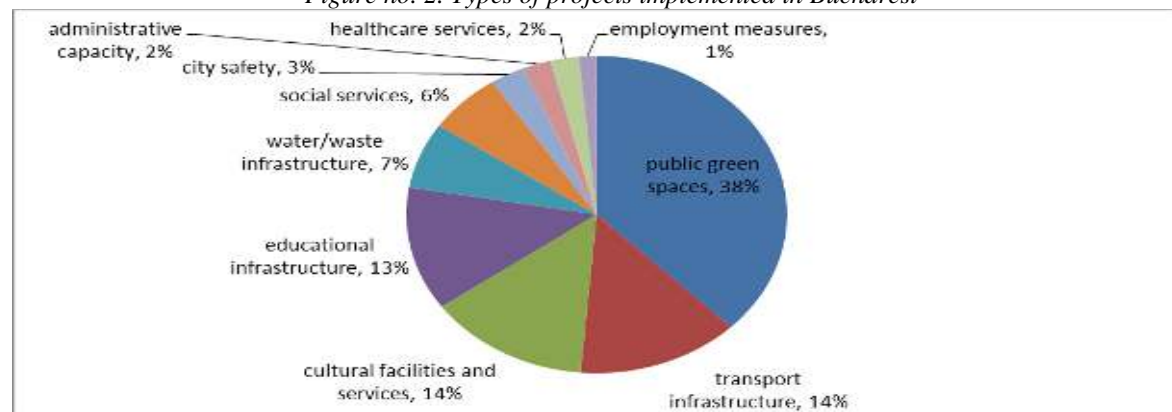


Source: Author’s adaptation of data from the Administration of the Council of Ministers (<http://umispublic.government.bg/prProcedureProjectsInfo.aspx?op=-1&proc=-2&clear=1>)

In the water/waste category, 2 projects were implemented, one concerning the water supply network and the other an integrated system of domestic waste treatment. In the public transport category, measures aiming to improve the quality of the air in the city were taken by purchasing trams, buses and trolleybuses. Also, the extension of the metro line in Sofia was undertaken and a traffic safety school training program was prepared and implemented. Financial assistance was also provided in support to cultural services for the organization of an art festival and the rehabilitation of a museum, to the development of the administrative capacity, aiming to improve the quality of the public services provided and also to social services.

In Bucharest, for the 2007-2013 programming period, 44 investment projects were identified that were implemented by the Municipality of Bucharest and by the city halls of the 6 administrative subunits of the city. The total value of the payments made for these projects (amounts actually reimbursed) was 48 million euros and their typology can be observed in Figure 2.

Figure no. 2. Types of projects implemented in Bucharest



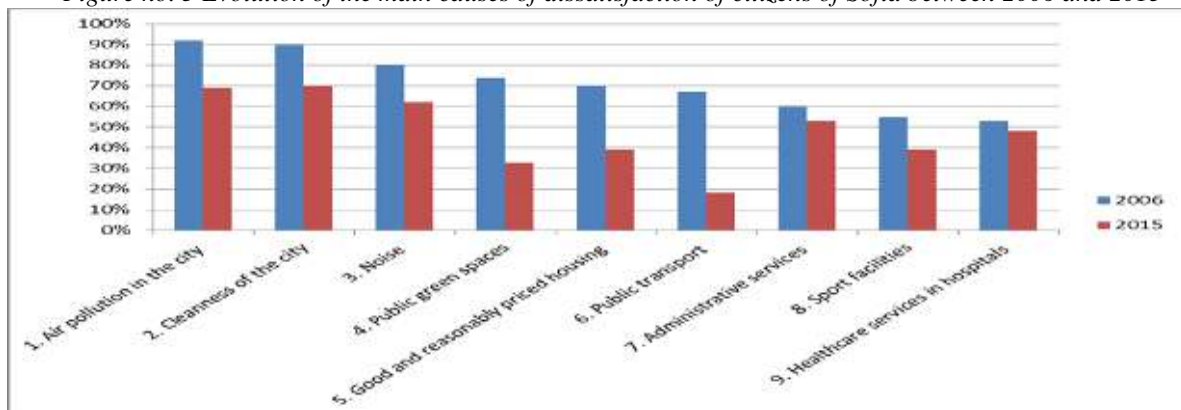
Source: Author’s adaptation of data from Ministry of European Funds (<http://old.fonduri-ue.ro/baza-de-date->

proiecte-contractate)

As presented in Figure 2, the largest part of investments focused on the public green spaces in Bucharest, namely 7 projects of parks modernization. An important amount was also invested in transport infrastructure, within 5 projects focusing on city roads, parking places and sidewalks, cultural facilities and services, within 9 projects addressing the rehabilitation of monuments, museums and important city landmarks and to the educational infrastructure, within 2 projects regarding high schools rehabilitation.

The perception of the citizens of Sofia and Bucharest on their living conditions remained strongly positive also in 2015. According to a survey published by the European Commission in 2016, 86% of the citizens of Sofia and 83% of those of Bucharest were satisfied, in general terms, with living in their city (European Commission, 2016, p.20). The evolution of the main causes of dissatisfaction of the citizens of Sofia is presented in Figure 3.

Figure no. 3 Evolution of the main causes of dissatisfaction of citizens of Sofia between 2006 and 2015

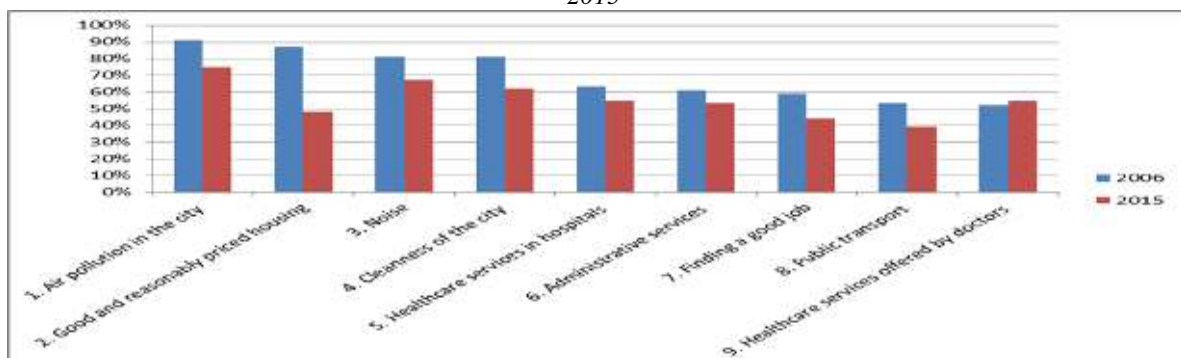


Source: (European Commission, 2007) and (European Commission, 2016)

A direct link between the implementation of the projects and the improvement of the citizens' perception cannot be made, due to the other factors that might intervene, such as other projects implemented from local resources. Nevertheless, the most important improvement was registered with regard to public transport (49%), the second largest investment area in Sofia (see Figure 1).

In the case of Bucharest, the evolution of the main causes of dissatisfaction of its citizens is presented in Figure 4.

Figure no. 4 Evolution of the main causes of dissatisfaction of citizens of Bucharest between 2006 and 2015



Source: Source: (European Commission, 2007) and (European Commission, 2016)

An improvement is registered in almost all cases. As the survey published in 2016 no longer differentiated between healthcare services in hospitals and those offered by doctors, the same value was used in both cases. Also, it should be mentioned that the main investment area – public green spaces, which did not cause dissatisfaction in 2006, 51% of the citizens of Bucharest being satisfied with what the city was offering and which is not shown in Figure 4, remained positive, in 2015, the

percentage of satisfied citizens increasing to 62%.

#### 4. Conclusions

The results of the analysis performed show that there is room for improvement regarding the alignment of investments made within the Cohesion policy with the citizens' expectations, especially in the case of Bucharest. As such, in Sofia an important part of the granted financial assistance tackled 2 of the main causes of dissatisfaction for citizens, air pollution and public transport, but little was done for other areas, also important for citizens, such as the public green spaces and facilities for sport activities. In Bucharest, priority was given to areas such the green public spaces and city safety measures (surveillance systems), areas already considered satisfactory by the citizens, instead of the hospital facilities that were ranking very high in the citizens' expectations of improvement.

In order to improve the attractiveness of the cities to their citizens, as the Cohesion policy tries to achieve, a closer partnership between the responsible authorities and the citizens should be enforced, both when designing the programmes and when the prioritization of the investment projects is made. For the 2014-2020 programming period, still in an early stage of implementation, the results of the survey recently published by the European Commission could also be a useful instrument for channeling the investments from the EU funds to the areas that are the most important to the citizens.

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# Evolution of Renewable Energy Capacities in Europe after the Lisbon Treaty

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## Abstract

*Energy sector is vitally important for each country and has included a significant strategic side. The way to obtain energy and the environmental impact have become extremely important issues for all countries.*

*In general, most countries have understood the need to obtain energy from alternative sources which are cleaner and sustainable but also stimulate the development of an effective infrastructure of Renewable energy because it creates not only a cleaner environment but also job opportunities in sustainable industries.*

*The paper aims to analyze the evolution of renewable energy capacities in Europe, in total and on detailed representative countries, due to the impact of signing and assuming the Lisbon Treaty in 2007.*

**Key words:** renewable, energy, sustainable development

**J.E.L. classification:** Q01, L89

## 1. Introduction

Since the Rio Conference (1992) to the UN Conference on climate change in Paris in december 2015 (treaty signed by over 135 countries), the international community decided to deal with issues of sustainable development and the environment concerns through collective measures at the global level [Guvernul Romaniei 2012a].

Thus, in 2007, EU countries have signed the Treaty of Lisbon which includes specific protocols on climate change and the fight against global warming. And some of the provisions of the Treaty refers punctually to the problems of energy supply, but also the necessity of changes of position in European energy policy [Guvernul Romaniei 2012b].

The Lisbon Treaty for the first time includes a special section that is dedicated to a very important chapter in economies of the countries but at the same time, essential for sustainable development, namely: energy and the sources of obtaining it. For the first time is define a legal basis for future EU action in the field of energy. As is well known, the strategic energy sector has an important aspect for individual countries, but also at EU level. In this respect, the Lisbon Treaty gives the European Union a competence shared with the Member States in ensuring effective operation of the energy market, especially in terms of energy supply to Member States, securing energy supplies and especially the development of renewable energy resources. All EU energy activities will be done by protecting and amelioration of the environment [Ministerul Afacerilor Externe 2009].

In general, most countries have understood the need to obtain energy from alternative sources, cleaner and sustainable and also to develop of an effective infrastructure for renewable energy because it creates a cleaner environment but also job opportunities in sustainable industries and economies.

## 2. Energy analysis

For analyzes on energy capacities were used mainly statistical data from situations of the International Renewable Energy Agency (IRENA) and also other international organizations and agencies, such as UNEP, IEA.

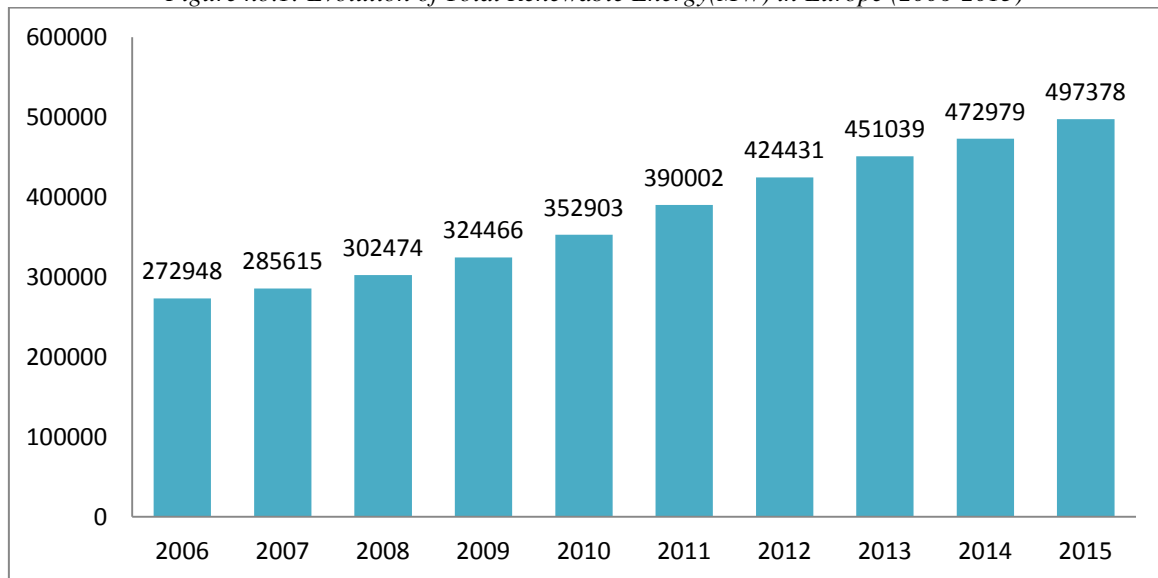
In this case, the statistics provided by IRENA (IRENA Renewable Capacity Statistics 2016) used the following concepts: “Renewable power generation capacity is measured as the maximum net generating capacity of power plants and other installations that use renewable energy sources to produce electricity and the data reflects the capacity installed and connected at the end of the calendar year, measure in megawatts (MW)”. [IRENA 2016b].

The paper will present comparative situation of total energy for Europe and for the first four countries in Europe (EU) in ranking with the highest energy capacity, for the last four countries in ranking, with the smallest energy capacity and for Romania and neighboring countries, former socialist: Bulgaria, Hungary but also for Austria.

### 2.1 Europe-Total renewable energy

The first analysis is made for total Renewable energy capacities in Europe in the period 2006-2015 and its dynamics is presented in figure 1 (personal processing using data source from IRENA Renewable Capacity Statistics 2016).

Figure no.1: Evolution of Total Renewable Energy(MW) in Europe (2006-2015)



Data source: (IRENA 2016a, p.12)

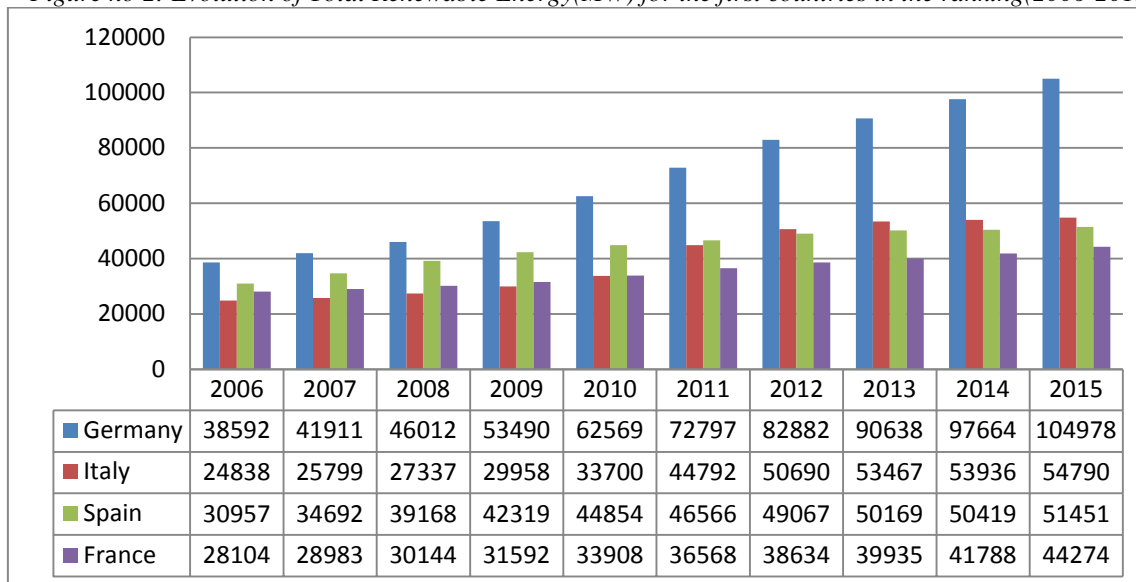
Evolution of total energy capacities in Europe after 2006 saw a steady ascending trend. Thus, in 2006 compared to 2007, energy capacities rose by 4.6%, in 2007 compared to 2008 increased by 5.9%, in 2009 compared to 2008 by 7.27%, in 2010 compared to 2009 by 8.76%, in 2011 compared to 2010 by 10.5%, in 2012 compared to 2011 by 8.82%, in 2013 compared to 2012 by 6.26%, in 2014 compared to 2013 by 4.86% and 2015 compared to 2014 by 5.15%. The total power capacity in the analyzed period, in 2015 compared to 2006, increased by 82.2% reaching value.

### 2.2 Renewable energy dynamics analysis for the member countries

The leading position in Europe in terms of renewable energy capacity are the following countries: Germany, Italy, Spain, France (figure 2).

Germany is the country that has the highest renewable energy capacity in Europe, with a percentage of 14.13% in 2006, reaching a value of 21.11% of the total capacity in 2015 from Europe's total renewable energy capacity.

Figure no 2: Evolution of Total Renewable Energy(MW) for the first countries in the ranking(2006-2015)



Data source: (IRENA 2016a, p.13)

Like most European countries, in Germany, renewable energy capacity has known a steady rising trend. Otherwise: in 2007 compared to 2006 were increases of 8.6% , in 2008 compared to 2007 growth of 9.78%, in 2009 compared to 2008, increases of 16.25%, in 2010 compared to 2009 by 16.97%, with 16.34% in 2011 compared to 2010, with 13.85% in 2012 compared to 2011, by 9.36% in 2013 compared to 2012, by 7.75% in 2014 compared to 2013, and up to 7.49% in 2015 compared 2014. During the entire period, 2006 vs. 2015 total renewable energy capacity increased by 172%. Is the biggest jump among leading countries.

Second state in terms of renewable energy capacity is Italy. This has seen a similar trend in terms of capabilities with German renewable energy capacities. Thus, in 2007 compared to 2006 capacity has increased by 3.87% , with 5.96% in 2008 compared to 2007, with 9.59% in 2009 compared to 2008, by 12.5% in 2010 compared to 2009, but with a maximum of about 33 % in 2011 compared to 2010, followed by a decrease in growth rate, namely 13.17% in 2012 compared to 2011, with 5.48% in 2013 compared to 2012, only 0.88% in 2014 compared to 2013 and 1,58% in 2015 compared to 2014. During the entire period, 2006 vs. 2015, total renewable energy capacity of Italy increased by 120%.

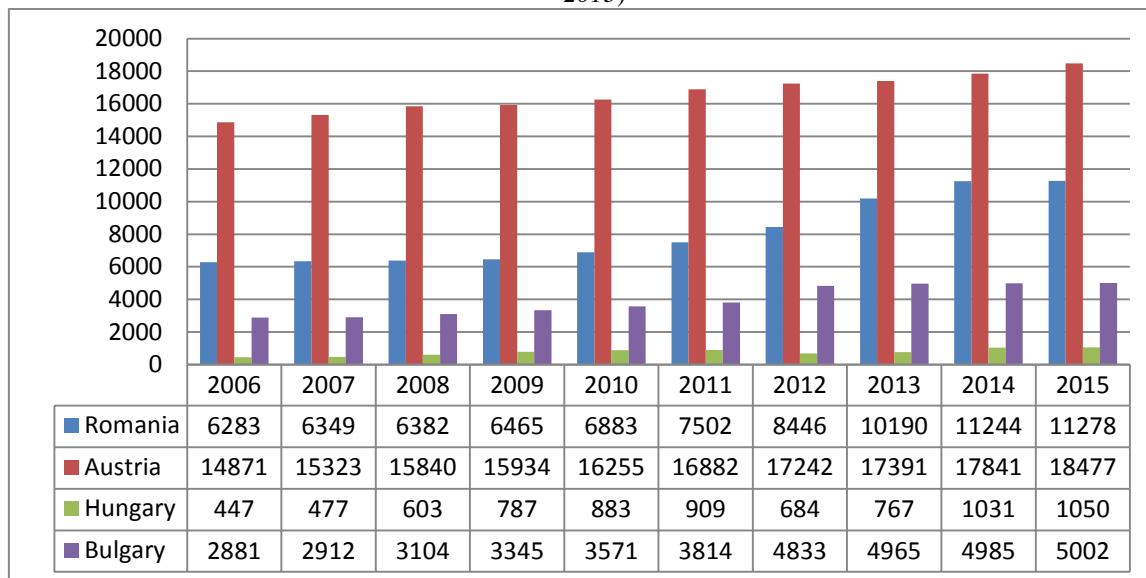
The third state as installed capacity is Spain. Renewable energy capacity increases situation is as follows: with 12.7% in 2007 compared to 2006, by 12.9% in 2008 compared to 2007, by 8% in 2009 compared to 2008, with approx. 6% in 2010 compared to 2009, with 3.82% in 2011 compared to 2010, with 5.37% in 2012 compared to 2011, 2.25% in 2013 compared to 2012 and only 0.5% in 2014 compared to 2013 and by 2.05% in 2015 compared to 2014. During the entire period, 2006 vs. 2015, total renewable energy capacity of Spain increased by 66%.

France is only fourth in this ranking. Capacity increases are steady but modest as value. Thus: Total renewable energy capacity increased in 2007 compared to 2006 by 3.13%, with 4.01% in 2008 compared to 2007, with 4.80% in 2009 compared to 2008, with a peak in 2010 and 2011 when it increased by 7.33 % and 7.84%, followed by more modest increases of 5.65% in 2012 compared to 2011, 3.37% in 2013 compared to 2012, by 4.64% in 2014 compared to 2013 and by 5.95% in 2015 compared to 2014. During the entire period, 2006 compared to 2015, the total capacity of renewable energy of France increased by 57.5%.

Regarding Romania's renewable energy situation and its neighbors, as is visible in Figure 3, it can be concluded that, overall, there are increases in energy capacities but with some important fluctuations for some states.

For Romania, the increases were constant throughout the period analyzed (2006-2015) energy capacity grew by 79.5%.

Figure no 3: Evolution of Total Renewable Energy(MW) for Romania, Austria, Hungary, Bulgaria (2006-2015)



Data source: (IRENA 2016a, p.13)

On the years, the situation is this: in 2007 over 2006 the increases were only 1.05%, in 2008 compared to 2007 increases were only 0.52%, in 2009 compared with 2008 assist to growth of 1.3%. Follows a better growth in 2010 compared to 2009 is by 6.47% and follows a similar trend, so in 2011 compared to 2010 increased by 8.99%, in 2012 compared to 2011 growth is 12.58%, followed by a maximum of 20.68% in 2013 compared to 2012 and a drop of 10.34% in 2014 compared to 2013, for just 0.30% in 2014 compared to 2015.

In Austria, the energy capacity installed in 2015 was only 24.4% higher than in 2006, the increase was smaller than Romania, Bulgaria or Hungary. In years, this development has the following dynamics: 2007 compared to 2006 increased by 3.04%, 2008 compared to 2007 with 3.37%, in 2009 compared to 2008 by 0.59%, in 2010 compared to 2009 by 2.01% , in 2011 compared with 2010 by 3.86%, in 2012 compared to 2011 by 2.13%, in 2013 versus 2012 by 0.86% , 2014 versus 2013 by 2.59%, in 2015 compared to 2014 by 3.56%.

In Hungary the renewable energy capacity installed in 2015 was 134% higher than in 2006, represents the maximum growth of the countries analyzed. In absolute terms, installed capacity is modest compared to the other countries analyzed. Installed capacity increases were as follows: in 2007 over 2006 with 6.71%, in 2008 compared to 2007 by 26.42%, in 2009 compared to 2008 we have a maximum increase of 30.15%. In 2010 compared to 2009 the increase was 12.2% following a downtrend, obviously due to the crisis, so in 2011 compared to 2010 increased by 2.94% and -24.75% in 2012 compared to 2011. In 2013 compared to 2012 the increase was 12.13% , in 2014 compared to 2013 by 34.4%, and in 2015 compared to 2014 by 1.84% .

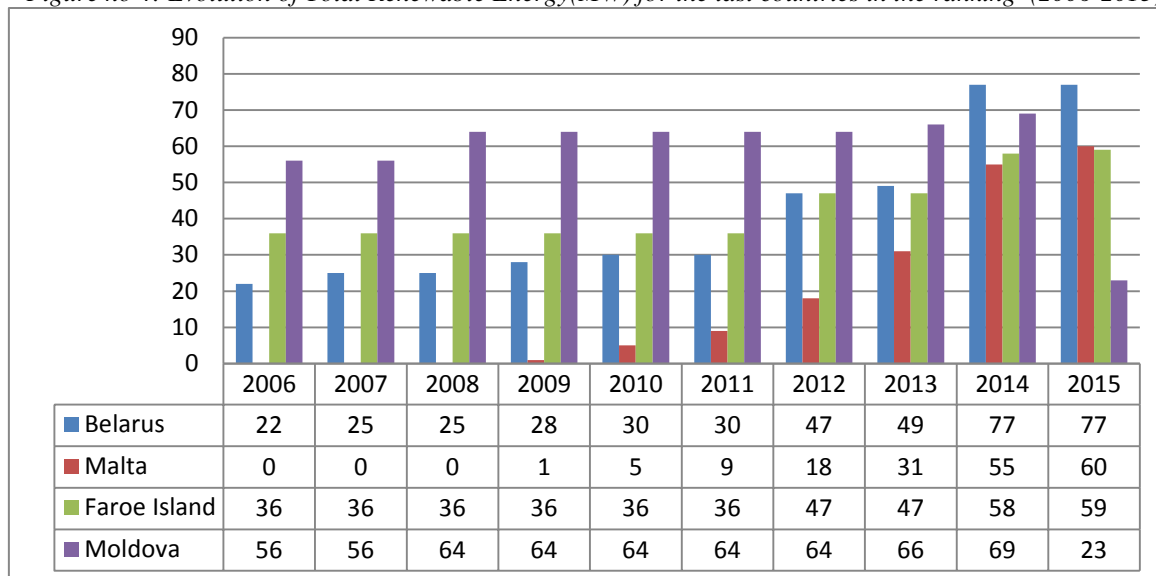
In the case of Bulgaria, the renewable energy capacity installed in 2015 was 73% higher than in 2006. In the years, situation is as follows: in 2007 over 2006 the increase energy capacity was by 1.08% in 2008 compared to 2007, by 6,59% in 2009 compared to 2008, up to 7.76% in 2010 compared to 2009, up to 6.76% in 2011 compared to 2010, to 6.80% in 2012 vs 2011, with a maximum of 26.72%, in 2013 compared to 2012 with 2.73%, in 2014 compared to 2013 only 0.45% and a minimum increase of only 0.34% in 2015 compared to 2014.

On the last places in ranking in Europe there are four countries: Moldova, Belarus, Faroe Island and Malta (Figure 4).

The last in Europe in terms of total installed renewable energy capacity are countries with different economic development and size. Thus, if Belarus and Moldova are somewhat similar as former socialist countries, Malta and Faroe Islands are very small countries, so obviously the installed energy capacities are small.

For Belarus, increased power capacity, for the entire period, was 3.5 times higher in 2015 compared to 2006! Thus, in 2007 compared to 2006 capacity growth was 13.64%, followed by stagnation in 2008 compared to 2007, a growth of 12% in 2009 compared to 2008 and with 7.14% in 2010 compared to 2009, again a stagnation in 2011 compared to 2010 and increases by 56.67% in 2012 compared to 2011, with 57% in 2014 compared to 2013 and stagnation in 2015 compared to 2014.

Figure no 4: Evolution of Total Renewable Energy(MW) for the last countries in the ranking (2006-2015)



Data source: (IRENA 2016a, p.13)

Moldova, however, witnessing a rise in capacity with only 23% in 2014 compared to 2006, with years in which growth was 0, in 2007 compared to 2006, in 2009 vs 2008, in 2010 compared to 2009, in 2001 compared to 2010, in 2012 compared to 2011. Increases renewable power capacity by 14.29% in 2008 compared to 2007 and with 3.13% in 2013 compared to 2012 and with 4.55% in 2014 compared to 2013. In 2015, the situation looks a dramatic decrease of 66.67% compared to 2014.

In the case of Faroe Island, the increase is by 63.88% in 2015 compared to 2006. The increases is zero from 2006 until 2011 and in 2013 compared to 2012, followed by increases of 30.5% in 2012 compared to 2011 and by 23 4% in 2014 compared to 2013 and only with 1.72% in 2015 compared to 2014.

And for Malta, we are witnessing explosive growth, from very low values: 1MW to 60MW, in 2009 until 2015. In fact, Malta has developed this branch of renewable power after the Treaty of Lisbon.

## Conclusions

All European countries, even those that are not part of the EU, understood the need for transformations of energy sectors to produce clean energy as much as possible. The review clearly shows that after 2007, European countries have tried to apply the Lisbon Treaty in the field of Renewable Energy, so there are countries which have established new branches of clean energy and countries which had outstanding increases.

The most powerful countries in Europe have made important contributions in the field of Renewable Energy before 2007 and after 2007 generally were constantly increasing trends. New member countries were "hardworking" and have filed more effort in this regard (especially since



certain types of energy: wind, solar photovoltaic, biogas etc, had no lucrative capacities before 2007).

System crisis that began in 2007-2008 did not influence the development of new renewable energy capacities, on the whole period, although it can be seen an explosion in increasing renewable energy capacities in countries like Belarus or Malta. The only country that has varied uptrend is Hungary, which had years with decreasing renewable energy capacities. Moldova has just one year , in 2015, with decreasing renewable energy capacities .

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# **Curing the ‘Beach Disease’: Corruption and the Potential of Tourism-led Transformation for Developing Countries and Transitional Economies**

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## **Abstract**

*The continuous global growth of the tourism sector over the last decades has highlighted its potential as a developmental strategy for developing countries and transitional economies. The attractiveness of a tourism-led economic transformation lies in the capability of attracting foreign investment and generating significant income even when subjected to unfavorable infrastructural-, business-, economic- and social-conditions. Empirically, nonetheless, tourism competitiveness, potential and transformational success greatly varies between country-cases. This paper explores and discusses a number of potential factors (Regulatory framework- and Safety/Security-related) suggested in tourism literature as responsible for such outcome variations. Following the quantitative/statistical analysis of multi-source combined secondary data, there is inadequate quantitative support for the factors suggested. To account for the resulting theoretical (or explanatory) gap, the role of corruption is proposed as a latent and under-researched factor for a better understanding, exploration and implementation of tourism-led economic growth.*

**Key words:** Tourism, Economy, Development, Transformation, Corruption

**J.E.L. classification:** Z32 Tourism and Development

## **1. Introduction: Potential of Tourism for Developing Economies**

Despite recurring economic crises, political unrest over the last years, tourism remains a rapidly growing sector. The 2015 Edition of UNWTO’s Tourism Highlights (World Tourism Organisation, 2015) highlights tourism as key driver of development, prosperity and well-being. Despite occasional shocks, tourism has shown virtually uninterrupted growth. International tourist arrivals have increased from 25 million globally in 1950, to 278 million in 1980, 527 million in 1995, and 1133 million in 2014 (World Tourism Organisation, 2015:02). Particularly for non-industrialized, developing countries, tourism development carries the hope of fueling economic growth. Particularly, weak economies, characterized by income inequalities, semi-functional public authorities and poor infrastructure, investment in the development of their tourism sector is seen as a driver of economic development. Yet, those very characteristics can be seen as potential obstacles to tourism development. To what extent and under what preconditions can a developing economy benefit from tourism? Can natural and cultural resources compensate for poor infrastructure, safety/security risks resulting from semi-effective public sectors and social inequality?

## **2. Determinants of Tourism Competitiveness**

At the end of the day, is tourism the way out from poverty? Does tourism development pay-off and if yes, under what conditions?

*Does Tourism pay-off? Exploring the Relationship between Tourism-Investment and Tourist-Spending*

According to the World Travel & Tourism Council’s 2014 data (WTTC, 2015) on tourism performance for 173 countries, the global investment<sup>1</sup> of USD 941.233 Billion has generated USD 8.047,110 Billion in tourist-spending. This can be translated to USD 8.55 in tourism-income for every dollar invested.

H1: There is a positive relation between tourism investment and tourism income (referred to as ‘Tourist-Spending’ further on)

Subjecting the complete data set (173 countries) to correlation testing<sup>2</sup> resulted to a significant (i.e. Alpha coefficient less than 1%) Pearson correlation value of 98.6%. This result means that there is not sufficient evidence to reject the hypothesis stating a strong relationship between tourism investment and corresponding income; high / low investment in tourism corresponds to high / low tourist-spending (or income). The implied causality between what is invested and the income produced requires further exploration though. The factor of competition needs to be accounted for.

In a study of global tourism competitiveness, Cirstea (2014) analyzed data from the Travel & Tourism Competitiveness Report, annually issued by the World Economic Forum. The indicators (independent variables considered were grouped into three categories, including: ‘Regulatory Framework’, ‘Business Environment’ and ‘Human, Cultural and Natural Resources’. At this point it is worth considering and questioning the role of the variable: ‘Regulatory Framework’. One would be tempted to assume that this would be due to the structural effectiveness of attracting foreign investment via an investor-friendly regulatory framework, operated and implemented by an effective public administration. Empirical research somewhat contests this assumption. Steiner (2010), examined the relationship between stability and foreign direct investment in tourism. The author concluded that their effects has been overestimated in the past. Arguably, Egypt, Turkey and Greece are prominent examples in the respect, featuring a considerable growth in tourism performance in the last decade.

Looking at Cirstea’s (2014) variable-categories more closely, casts even more doubt on the aforementioned assumption. In terms of the ‘Regulatory Framework’ category, the variables (or measures) on ‘health and hygiene’ strongly correlated with travel tourism competitiveness index values, whilst ‘political rules and regulations’, ‘environmental sustainability’, ‘safety and security’ and ‘prioritization of tourism’ showed moderate correlations. With regard to the remaining variable categories, ‘air transportation’, ‘tourism infrastructure’ and ‘cultural and natural resources’ were the most significant. ‘Ground transportation’, ‘human resources’, ‘ICT infrastructure’ and ‘price competitiveness’ appeared to be rather insignificant (i.e. weak influence). Simply-stated, the data here suggests that travel and tourism competitiveness does not necessarily need to reflect the developmental stage of the overall economy (i.e. infrastructural state, general attractiveness of foreign investment). This assertion is somewhat compatible with the findings of Pablo-Romero & Molina (2013), who identify a country’s degree of specialization in tourism as a key factor to the sectors’ growth and economic contribution. Countries specializing in tourism and for which tourism represents a key economic sector and is thus actively supported, are presumably more competitive and benefit more from tourism, than those where tourism represents a secondary and / or marginal aspect of their economic activities.

### *Does Safety and Security Make a Difference? Exploring the Relationship between Criminality and Tourist-Spending*

Regulatory frameworks and functional public administration seem to be instrumental in terms fostering ‘health and hygiene’, and ‘safety and security’ (Cirstea, 2014), greatly contributing at

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<sup>1</sup> This includes both private investment and government spending on tourism on tourism-related assets and infrastructure

<sup>2</sup> With SPSS 17.0 (Statistical analysis software)

destination competitiveness. Concurrently, they seem to play a rather insignificant role in attracting ‘foreign investment in tourism’ (Steiner, 2010). The question here is: if not imperative for foreign investment, how does effective public administration improve the competitiveness of tourism? The simple answer here is: Tourist-spending (international and domestic). If visitors feel safe, they are more likely to leave the safety of all-inclusive resorts and consume the services and products available in the wider area. This spending could range from eating in local restaurants (refer to ‘health and hygiene’) to excursions and exploration local markets and shopping centers for goods and services (refer to ‘safety & security’).

H2: Safety and security is positively-related to tourism-related spending

Based on the United Nations Office on Drugs and Crime (UNODC, 2015) statistics on various categories of crime (incidents per 100,000 inhabitants during 2014) for 128 countries. Crime incidents measured included: Rape, Assault, Theft, Robbery, Child Abuse and Homicide. Testing the correlation between the UNODC crime incident data and the WTTC’s (2015) indicators for 2014 on tourist-spending (both domestic and international) is illustrated in Table 1. The correlation tests between different forms of crime and tourism-spending indicators (Table 1), mainly resulted to low (i.e. less than 0.2) and non-significant (i.e. Alpha over 0.05 threshold) Pearson correlation values.

Table no. 1: Correlation-Testing Crime Incident Rates and Tourism Spending

		<b>Tourism Contribution to GDP</b>	<b>Domestic Travel &amp; Tourism Spending</b>	<b>International Tourism Spending</b>
<b>Rape</b>	Pearson Correlation	,088	,101	,085
	Sig. (2-tailed)	,350	,287	,369
	N	114	114	114
<b>Child Abuse</b>	Pearson Correlation	-,026	-,007	-,030
	Sig. (2-tailed)	,804	,949	,777
	N	93	93	93
<b>Assault</b>	Pearson Correlation	,065	,069	,070
	Sig. (2-tailed)	,485	,464	,454
	N	116	116	116
<b>Homicide</b>	Pearson Correlation	-,079	-,065	-,086
	Sig. (2-tailed)	,409	,497	,369
	N	111	111	111
<b>Robbery</b>	Pearson Correlation	,059	,055	,056
	Sig. (2-tailed)	,531	,558	,555
	N	115	115	115
<b>Theft</b>	Pearson Correlation	,195*	,200*	,207*
	Sig. (2-tailed)	,037	,032	,026
	N	115	115	115

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\*. Correlation is significant at the 0.05 level (2-tailed).

Source Data: WTTC (2015) and UNODC (2015)

The one exception here was ‘theft’, which was positively-related to tourist-spending. The predominantly positive correlation values suggest that the high-crime rates are positively-related to higher tourist-spending and vice versa. In order to not reject the stated hypothesis, those correlations would require negative values and significance at the 0.05 level or below. Since neither of those conditions are met, the H2 hypothesis must be rejected. In fact, the very proliferation of positive correlation values implies that higher tourism-spending (and hence also tourist volumes), the higher the criminality. This contention is compatible with the findings of various researchers (e.g. Chesney & Lind, 1986; Ryan, 1993; Harambopulos & Pizam, 1996; Barker et al, 2002; Boakye, 2010; Harris, 2012). On the basis of the above, it would seem that criminality and / or safety and security issues do not notably affect tourist-spending, but are rather facilitated by it.

Based on our data analysis, tourism-development seems indeed a viable option for developing economies. Poor infrastructure and semi-functional public sectors do not appear to be an issue where tourism-investment is concerned. Moreover, safety and security deficits do not appear to significantly affect tourists’ spending (Brunt, 2000; Larsen et al, 2009).

### **3. Revisiting the Potential of Tourism for Developing Economies: The ‘Corruption Virus’ and the ‘Beach Disease’**

In other words, the very challenges potentially restricting the overall economic development of a particular country have less of a detrimental effect when it comes to tourism. Focusing on tourism seems indeed ‘forgiving to the potential ails’ of a developing economy and justifiable as an economic development strategy!

#### *The ‘Beach Disease’: Application of the ‘Dutch Disease’ Model in Tourism*

Despite the potential benefits of tourism for transition- and developing- economies, the ‘promise’ of long-term economic prosperity often fails to materialize (Che Chou, 2013; Inchausti-Sintes, 2015). An explanation for this is provided by the so-called ‘Dutch Disease’ hypothesis, which addresses the risks of de-industrialization and the adverse effects of the growth of a particular sector at the expense of others in an economy. Amongst others, Holzner (2011) researched the applicability of this model in tourism, referring to it as ‘Beach Disease’. The main premise of the ‘Beach disease’ can be summarized as follows: Tourism growth carries the risk of increasing price-levels and exchange rates negatively, reducing the overall competitiveness of an economy. The approach adopted for the public financing of tourism development, its taxation and the allocation of resulting tax income is also plays a significant role here (Seghir et al, 2015, Chen, 2016). Nevertheless, empirical evidence regarding the relevance and applicability of the ‘Dutch Disease’ model for tourism are inconclusive (Holzner, 2011; Che Chou, 2013) and necessitates a per-case consideration.

Thus, it can be argued that the ‘Beach Disease’ discussion proposes an additional precondition for the materialization of tourism’s economic growth promise in developing / transitional economies; Namely, functional and aligned tourism investment and taxation policies. Simply-stated, capital intended for tourism development needs to flow where it is supposed to and tourist-spending needs to be taxed (as to become tourism-income). ‘Leakages’ in the taxation of tourist’s-spending and misappropriation of tourism investment capital are indeed the true enemy of tourism-led economic development for non-industrialized transition economies. As already-mentioned, tourism can generate income and bring economic growth, in spite of poor infrastructure and / or safety and security issues. Effective taxation policies are however a key pre-condition for this.

#### *Does Corruption Make a Difference? Exploring the Relationship between Corruption and Tourist-Spending*

The detrimental effect of ‘tax-leakages’ leads to the suspicion of a relationship between

corruption, tourism competitiveness and tourist-spending.

H3: Corruption is related to tourism-related spending and tourism destination competitiveness

In order to test the H3 hypothesis the WTTC (2015) tourism performance indicators on tourist spending (domestic and international) were tested for correlations against the Corruption Perception Index (CPI) scores, annually published by Transparency International for 2014 (Table 2).

Table no. 2 Correlation-Testing between Corruption Perception Index Scores and Tourism Performance Indicators

		Tourism Contribution to GDP	Domestic Tourism Spending	International Tourism Spending
Corruption Perception Index Score	Pearson Correlation	,207*	,225*	,217*
	Sig. (2-tailed)	,031	,019	,023
	N	109	109	109

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\*. Correlation is significant at the 0.05 level (2-tailed).

Source Data: WTTC (2015), Transparency International (2016)

The Pearson correlation test revealed that the CPI score (i.e. the lower the score, the less corrupt a particular country is perceived to be) positively correlates to: Tourism contribution to GDP, domestic- and international-tourism spending. With Alpha coefficient values below 0,05, the H3 hypothesis cannot be rejected, highlighting corruption as a relevant factor for the main question posed by this paper. Corruption perception seems to be a key factor determining the tourism competitiveness and developmental success of developing countries and / or transitional economies.

#### *Reality vs. Perception: Impact of Safety and Security Concerns and the Role of Corruption*

Coming back to the hypothesis-testing result for safety and security (i.e. no significance) issues, a possible explanation for this rather surprising outcome could be that tourists’-spending is more affected by perception than fact. The subjective safety / security risk perceptions may well reveal a lot more than criminality incident statistics per se. Larsen et al. (2009) concluded that actual tourists are less concerned about crime than potential tourists and that their focus is mostly on petty crime (e.g. theft). Moreover, George (2010) found out that despite own safety concerns, tourists are likely to revisit and recommend a holiday destination to others. A key finding underlining the relationship between safety and security perceptions and corruption is offered by Boakye (2010), who observed that tourists’ feeling of safety and security did not depend so much on the visibility of uniformed personnel, but mostly on perceptions of order and professionalism in their surroundings. At the end of the day, it is not the mere existence and visibility of safety and security assurance structures and regulations that make the difference. It is about trusting that such structures and regulations will function as they ought to when the need arises. Incidents of crime and the safety risks are regarded as travel-systemic and are thus acceptable for tourists; as long as they feel in a position to react should such risks materialise. Corruption corrodes this trust, fostering insecurity and lack of a safety feeling.

#### **4. Concluding Remarks, Limitations and Further Research**

In this paper the question of tourism development as a viable strategy for the economic prosperity of developing / transitional economies has been addressed, explored and discussed. Summarizing, the conclusion here is that, investing and specializing on tourism is indeed a sensible

option for developing economies because its competitiveness is not significantly impeded by an endemic infrastructural poverty and / or safety and security deficits (at least in the longer-term). Nevertheless, even under such ‘forgiving’ premises, addressing corruption is a key precondition for the tourism potential to materialize. Although, this may well apply to all sectors (i.e. not just for tourism), the very nature of this service sector which is highly dependent on the emotional and experiential consumption of multiple intangible (and also relatively costly) elements, renders it particularly sensitive to breaches of system-related trust. The scope of this paper is limited and arguably not sufficient to fully explore corruption in the tourism development context. It does however, highlight the relevance and importance of further research in the under-researched domain of tourism-related corruption.

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## Ontology based Approach for an Insurance Company Activity Modelling

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### Abstract

*By their operations variety, insurance companies are faced with a large amount of data, taking into account that an insurance type allows to cover several risks types. Also, the same risk type can be the subject to several insurance types. The risk notion is specific to the insurance domain and the insurance risk significances are varied.*

*Ontology is a formal, explicit specification of the terms and defines a common vocabulary for researchers who need to communicate information in a certain field.*

*This paper aims to create an OWL ontology for modelling the activity of an insurance company, providing a solid basis to apply knowledge in the general insurances domain, by defining a set of representation terms for risks, in order for the big insurance companies to discover new information relating to the interaction between risks, to form an overview of the external and internal risk factors to which an insurer is subjected to.*

**Keywords:** OWL ontology, Protégé ontology editor, insurance policy, types of risk

**JEL Clasification:** C63, C81

### Introduction

In the context of economy globalisation, a significant number of companies have arisen that migrated to an economic model characterised by digitizing and information technology using, in order to increase the efficiency and the ability of running on different platforms, in real time (Oprescu et al, 2014, pg 21).

Digital economy has a direct impact on promoting employment and on economic and social development, promoting efficiency as the end goal (Comisia Europeană, 2013, pg 2)

In Romania, insurance companies can be state-owned, private or mixed. They collect, transform and redistribute financial resources, in order to gain profit. Their resources mainly consist of insurance premiums and interests.

From an economic perspective, the insurance is the insurer obligation to compensate an insured in case of a loss suffered, beyond his will, at a certain price.

Insurance companies are exposed to certain risks due to the large variety of activities that they operate and the constantly changing process as a result of the insurance market evolution, the competition rules and clients' requirement to benefit from customised products.

The risks faced by the insurance company are generated by several factors, among which: the subscription of the insurance premiums, the inaccurate estimations of the technical reserves, the unpredictable changes in the frequency of damages, the catastrophic damages and a risk series of general nature common to all types of risks. In relation to the level at which they are generated, the risks are structured in the following manner:

- Risks specific to the company;
- Risks specific to the insurance market;
- Risks at the economy level.

Knowledge management (KM) has become a successful tool for companies because it can identify the best optimisation strategies and achieve the transfer of knowledge by operationalising the knowledge management processes, in everyday life.



The solutions provided by knowledge management support information technologies that integrate both formal and informal knowledge, in order to facilitate knowledge acquisition, creation, sharing, searching, refinement, storage, transfer and using. This is meant to support the organisational learning dynamics and to make the organisation more efficient.

The main purpose of KM is to create value, to improve and refine the companies' competences in order to achieve its objectives and organisational targets.

Knowledge must be modelled, structured and interconnected to support its flexible integration. Any knowledge management system can function in a desirable way only if is integrated in an efficient manner in the organisation, in which it operates.

Ontologies have proven to be the right answer to the structuring and modelling of issues by providing a formal conceptualisation of a certain field, which is shared by a group of people in a field. (Gruber, 1995, pg. 907-928 )

At the moment, the development of ontologies for knowledge management has reached the point where companies implement such ontologies.

### **Concepts and characteristics**

In recent years, companies are faced with a large amount of data, both from their own databases and from the worldwide web, mass media and life, in general.

The information technology struggles to this problem, but an answer to this problem can be found in a series of both new and traditional concepts, namely semantics and ontology.

The Semantic Web can be defined as a set of technologies designed to ensure a materialised view on the web according to which, at a certain point in time, all knowledge shall be accessible on the web in a format that software applications can understand, process in order to create new knowledge. In other words, software applications will become more intelligent.

The process of creating semantic documents has been a challenge for experts from the ontology domain.

The transition from independent documents and ontologies to the concept of semantic documents has had significant implications for the ontology field. When creating semantic documents, ontology creators have to take into account the fact that the ontology needs to be connected to the document, that introduces new concepts into the ontology. It may be necessary for certain components from the ontology structure to be redesigned and for the relationships to documents to be conceptualised, because these factors are relevant for the utility of the resulted semantic documents. However, the semantic documents method does not require the developers to completely restructure the ontology. Nevertheless, it is not recommended to introduce in the domain ontologies, concepts that do not have any connection between them.

Semantic documents can integrate in their structure several ontologies with different purposes. According to specialised literature, ontologies with different generality levels (i.e. top-level ontologies, domain ontologies, activity ontologies and application ontologies) can be used to represent the architectural components of an information system (Guarino, 1998, pg.3-15).

Annotation instances represent the first step towards integrating ontologies and documents, for semantic documents. However, in most cases, these instances are not sufficient to achieve an accurate ontology integration. Annotation instances can act as a first link to other classes and instances, bringing together the domain and application ontologies, on the one hand, with the document, on the other.

In order to develop an intelligent system, a knowledge base must be created, encompassing all general and specific knowledge necessary to the system in question, in order to solve problems from a well-defined field.

The first step of ontology creation consists in deciding on the inclusion, exclusion and the hierarchical structure of the ontology concepts.

By analysing the available data sources, an ontology represents a versioning project containing several elements. The experts in the field represent a very important knowledge source.

In order to create an ontology, the knowledge engineer have to take into account the following factors (Noy at al, 2001, pg.1-25):

- The ontology domain and the ontology purpose;

- The design guidelines to ensure a coherent development;
- Available sources;
- Potential users and use cases;
- Applications accepted by the ontology.

There are several methods and languages that can be used to create an ontology. The ontology offers a common vocabulary for a domain and is constituted of elements such as: setting the classes in a taxonomic hierarchy, the relationship between data and data types, inheritances from other ontologies and inference rules (Băjenaru et al, 2015, pg.139-156).

A recent development in the standard languages used to define ontologies is Web Ontology Language (OWL) that describes concepts, but, also, provides other facilities. This language allows using inference tools on the ontology data. It consists of three different sublanguages: OWL Lite, OWL DL and OWL Full which have different functions. In OWL, the classes are regarded as sets of individuals and are described by using formal descriptions. Classes are organised in a superclass/subclass hierarchy, known as taxonomy. One of the OWL-DL characteristics is that these superclass/subclass relationships can be computed automatically by a reasoner (Soartje et al, 2006, pg. 187-201).

### **Ontology for modelling the activities of an insurance company**

Companies are beginning to understand the fact that the semantics is very important when the systems and people will communicate between them. Based on this understanding, it is important to collect the ontology that describes the language used in the activities carried out.

Modelling an insurance company activity contributes to improving the efficiency by proposing an automated method for information searching. For this purpose, ontologies are used to model the domain and to create, organise and update the risks faced by the insured. (Bajenaru et al, 2015, pg.139-156). The ontology aims to study the things categories that there are or will be in the interest field.

There are different types of ontologies.

The ontology was implemented in the Protégé ontology editor. This editor has the following advantages: extensibility, plugins, an Application Programming Interface and documentation to write its own plugin (Niculescu et al, 2009, pg.73-88).

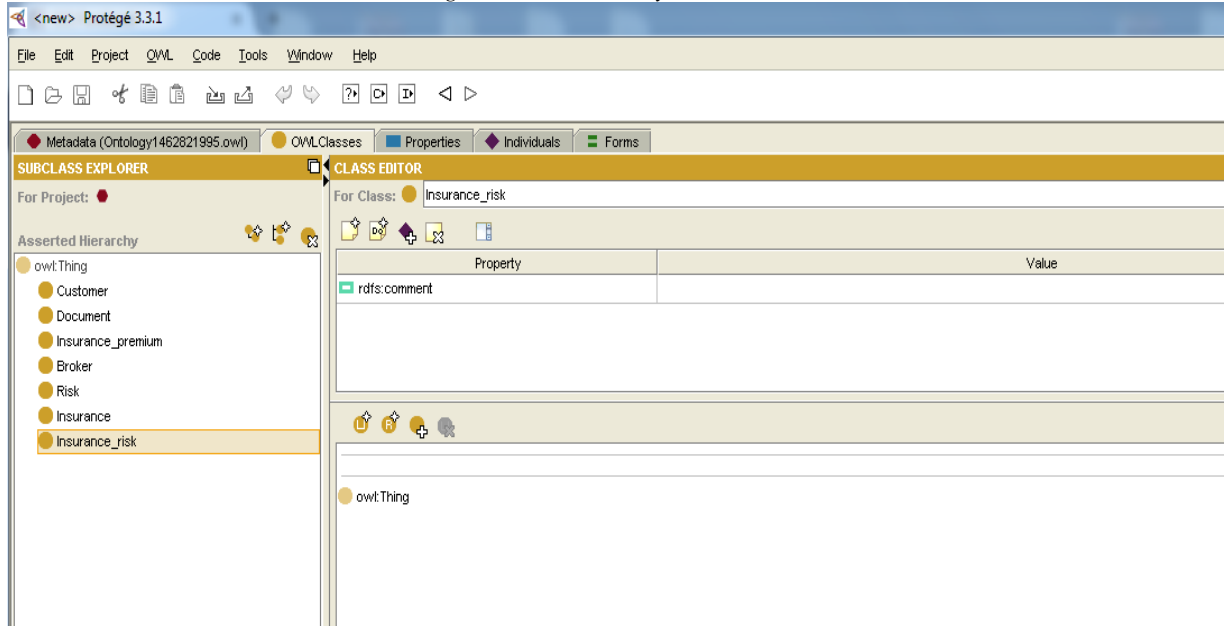
The Protégé-OWL editor allows users to:

- Load and save OWL and RDF ontologies;
- Edit and view Semantic Web Rule Language (SWRL) classes, properties and rules;
- Define logical characteristics of classes as OWL expressions;
- OWL individual edit for semantic web.

Forwards, the application for modelling an insurance company activity is presented that was created with Protégé OWL editor. An OWL ontology includes: Individuals, Properties and Classes. OWL classes are regarded as sets of individuals and the owl:Thing class represents all the individuals, as all the classes represent subclasses of the owl:Thing class ((Soartje et al, 2006, pg. 187-201).

The OWL ontology for modelling an insurance company activity has seven classes: Customer, Document, Insurance\_premium, Broker, Risk, Insurance, Insurance\_risk (figure 1).

Fig. 1. Class hierarchy in OWL.

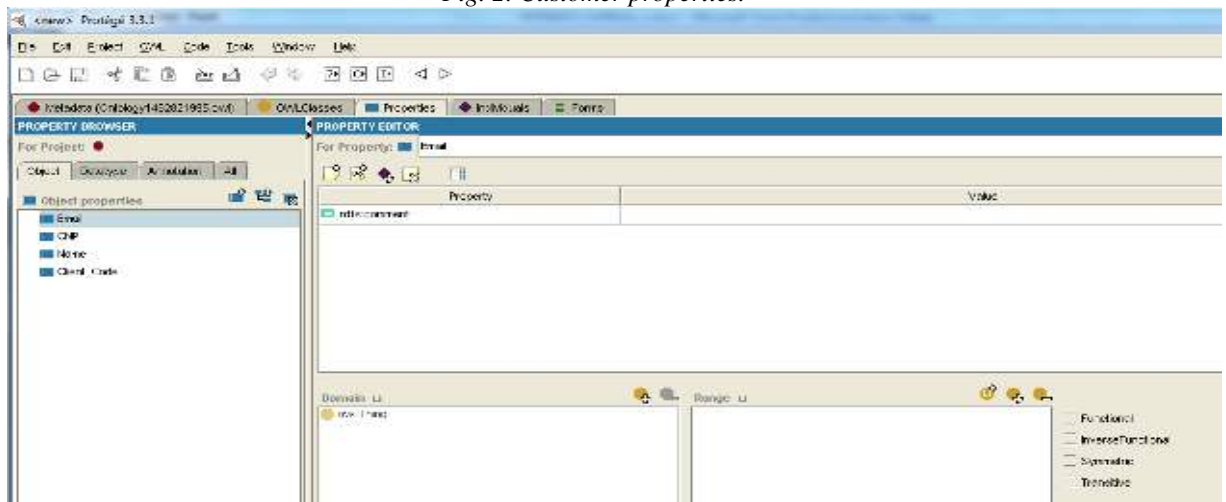


Source: made by the author.

The OWL ontology has two types of properties, namely datatype and object properties. The properties represent the relationships between individuals.

The Customer class (figure 2) contains the following properties: Client\_Code (integer), Name (string), CNP (integer), Email (string).

Fig. 2. Customer properties.



Source: made by the author.

An ontology with a set of classes individuals represents a knowledge base that consists of a set of concepts that have attributes and are connected between them.

Modelling the activity of an insurance company and using the developed ontologies can be implemented into a Web platform (Băjenaru et al, 2015, pg. 139-156).

## Conclusions

Due to the rapid development of information technology, the business environment has experienced a series of significant changes.

The competition between companies is based on technologies that have a crucial role in modelling the global economy based on knowledge and information.

The author offers in this article a solution for modelling the activity of an insurance company.  
The method has the following benefits:

- It conducts an analysis of the insurance field knowledge;
- It can be integrated in other systems for the insurance companies.

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## Short Essay on Managing Multicultural Students Groups within Diversity Context

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### Abstract

*The present essay focuses on summarizing the key elements that should be considered when educators are in a position to manage and interact with a group of students from different cultures or social environments. In this respect, we consider that the challenge educators' face in connecting with students of diverse backgrounds is to develop a critical consciousness of the ways in which these larger discourses operate in their classrooms and to care enough to question them, to challenge them and to advocate for their students. To care for students who come from historically marginalized populations educators need to remember that schooling can serve either a liberating or marginalizing function. They can empower students to identify structures in society that have contributed to marginalizing their perspective and seek to maintain inequitable structures in society or even narrow communities.*

**Key words:** Diversity, Intercultural Competence, Multicultural Context, Students Groups  
**J.E.L. classification:** A14, M14

### 1. Introduction

The nowadays expansion of the social, economic, demographic and cultural diversity represents a much discussed subject, within different approaches in the social sciences. Diversity is inevitable being an intrinsic attribute of the social, nature and culture contexts. There would be nonsense to consider us living in a world of homogeneity and of obsessively repeated identical forms. The territories of unmixed and pure cultures, with unmovable and impermeable borders, exist only by artificial means. The real world instead is made of open contexts and cultures of variable geometry (Nedelcu, 2008). Within this approach, we find evidences of different issues on diversity also in the worldwide educational systems. For example, we bring into discussion the fact that the challenge educators' face in connecting with students of diverse backgrounds is to develop a critical consciousness of the ways in which these larger discourses operate in the classrooms and to care enough to question them, to challenge them and to advocate for them. To care for students who come from historically marginalized populations (e.g. for Europe, the most relevant cases being the Roma population and the migrants from Middle Orient) we need to remember that schooling can serve either a liberating or marginalizing function. Within educators' particular approaches in conducting or coordinating groups of students, they can empower students to identify structures in society that have contributed to marginalizing their perspective and seek to maintain inequitable structures in society or even narrow communities. Educators can therefore incorporate in their lessons ways for students to identify these inequities, engage in social critique and work for change and even advocate for their students when they need someone to reveal, reframe and help them cope with unfair systems (Davis, Summers, Miller, 2012, p.122).

### 2. Introducing the concept of cultural synchronization

We can bring into discussion, within the discussed approach, the concept of cultural synchronization introduced in 1988 by Jacqueline Irvine in order to describe the ways in which

conflicts occurs in relationships between students of minority environments and their majority teachers when their values, patterns of interactions and ways of being are not aligned (Irvine, 1988). In this context, it often happens that the relationship between teacher and the particular student becomes characterized more by patterns of conflict and perceived disrespect rather than by understanding and cooperation. We can cite the study of Wubbels, den Brok, Veldman, & van Tartwick (2006) that founds the majority of teachers tend to misinterpret the intentions and actions of minority students and vice versa.” teachers may be more inclined to regard students’ interpersonal messages as personally offending or threatening, and consequently the potential for conflict is higher than for conflicts with majority students” (p.416). There are other studies that found out that teachers perceive multicultural classes as more emotionally charged and by this, they are more likely to be confronted with their mistakes and to be persuaded to negotiate procedures, grades and tasks (Wubbels, Brekelmans, van Brok & van Tartwick 2006). Teachers need to learn therefore how to reassess problems in a way that enables them to understand students’ behavior (Chang&Davis, 2009; Wubbels, Creton & Holvast, 1988). To conclude this assertion, we consider that we can begin the process of synchronizing with students when we model how to take ownership of our own misinterpretation.

### **3. Ways of developing intercultural competencies**

We argue therefore that the solution for us as educators/ teachers within this multicultural and turbulent context is to be more culturally competent in our relationships. Intercultural competence in turn implies a mindset oriented to intercultural communication, intercultural competence skills and intercultural sensitivity (Bennett, 2001). If the first two statements are necessary but insufficient to generate intercultural competence, being culturally sensitive is assumed to be definitive. This sensitivity is not simply a positive attitude towards cultural difference or a desire to relate to others, but rather, the ability to experience cultural difference. Such an experience is not the natural result of cross-cultural contact. Understanding the meaning of intercultural sensitivity can be facilitated via the following explanations: “An individual can witness a huge sequence of events and yet, if it fails to relate to them [...] he earns little experience in that was there when the events happened. Not what is happening around individual equips him with experience; interpretation and rebuilding successively what is happening, as it happens, enriches the individual's life experience” (Kelly, 1963, p.73).

The literature review on culturally responsive management and instruction allows us identifying four central factors (Brown, 2003; Gay, 2006; Milner, 2006):

- Effective teachers model respect for diverse students during instructional, social and personal interactions;
- Effective teachers respond explicitly to the needs of diverse students;
- Effective teachers are assertive about appropriate social and academic behavioral expectations;
- Effective teachers develop a responsive, integrative and problem-based curriculum that empowers students to become involved in their educational centers and communities (Ladson-Billings, 2001).

Developing relationships with students from diverse backgrounds requires learning aspects from the sociohistorical context (Beatty-O’Ferrall, Green, & Hanna, 2010). As students seek to understand their own identities, the meaning they associate with historical events that have affected their group and how they position the teachers and representatives of school can dramatically affect someone relationships. Learning to interact with people who have different life experiences and ways of representing the world is not something easy to do. It requires from the one in that position to make a commitment, to allocate intellectual and emotional resources. When faced with conflict or resistance from students, the professional can frame conflict as opportunities to learn new strategies to understand and connect with students, to learn ways to involve students in understanding and solving the challenges society poses and to learn new ways to support students ‘mastery of the educational content (Davis, Summers, Miller, 2012, pp.131-132).

From a conceptual perspective, we can summarize by referring to the fact that the concept of intercultural competence was first introduced through the Geertz’s semiotic vision on culture and consists of a sum of specific intercultural beliefs and compartments that pledges for openness,

empathy and communication in order to understand and valorize the logic of each near or distant culture. This complex structure of elements described above has been grouped by Byram and Zarate (1997) into five distinct categories of intercultural competence components:

- *The attitudes*, as curiosity, openness for fighting stereotypes;
- *Knowledge* on different social groups, related to different social practices and general processes of interaction, both on micro and macro-levels;
- *The abilities for interpretation and develop relationship* in relation with the others;
- *The abilities to interact and discover* in relation with the others, meaning the capacity to recipe new practices belonging to different cultures and to operate attitudes and abilities in an alterity context;
- *The abilities for reflections and critical assessment* based on criteria, perspectives, practices and products of own and alter cultures.

#### **4. Intercultural education and intercultural learning**

In order to connect the concept of intercultural competences within the framework educators could operate when dealing with multicultural students groups, we introduce the concepts of intercultural education and intercultural learning.

When having in mind the first concept, meaning intercultural education, we can refer to any systematic pedagogical effort that cumulatively focuses on developing (1) a better understanding of culture in modern societies, (2) a wider capacity of communication with people from other cultures, (3) better adapted attitudes towards the context provided by cultural diversity and social groups, due to a better understanding of psychosocial mechanisms that gives and encourages heterophobia and racism, and (4) a better capacity of participating to social interaction (Quellet, 1990). Gollnick and Chinn (1990) provides in addition some other specific descriptors to those above, meaning (1) the promotion of diversity potential, (2) the focus on human relations and the respect towards alterity, (3) the acceptance of alternative life styles, (4) the promoting of equity and the social justice values, and (5) the focus on the equal distribution of power within different cultural and ethnic groups.

The concept of intercultural learning, well designed and conceptualized within Council of Europe's documents and programs, is defined as an approach that “involves developing a comprehensive openness to other cultures , appreciation of cultural diversity , overcoming cultural stereotypes and ethnocentrism” (Fennes & Hapgood, 1997, p.37). As this definition is much closed to that given to intercultural education, Fennes and Hapgood (1997) provide four objectives for the intercultural learning, which are:

- Overcoming ethnocentrism, that implies the consciousness on the fact that perceptions on alterity are influenced by the own experiences and specificity of cultural background;
- Acquisition of the ability to empathize with other cultures, that implies openness towards alterity and putting aside the so called “fear of stranger”;
- Acquisition of the capacity to cross border communicate;
- Development of ways of cooperation beyond cultural borders.

However, between the coverage areas of the two concepts one could identify some sketched differences. These differences hold to a greater inclination of intercultural learning to non-formal education sector while intercultural education becomes comparatively more an ameliorative pedagogy within the education system with future effects in social assembly. Summarizing we can say that the intercultural learning addresses everybody, not only the professionals. As a matter of fact, the two concepts are related and interdependent: the learned and applied intercultural behaviors are a desirable result of any endeavor towards a diverse world (Nedelcu, 2008).

#### **5. Conclusions and future proposals**

Understanding context, making a commitment, and finding a way to connect with diverse students is the first step in developing a culturally competent classroom. Culturally competent

classrooms are characterized by a critical consciousness toward the curriculum, school and community. Cultural competent educators aren't afraid to involve their students in asking the tough questions about education and to develop a critical perspective. Within this approach, we find the importance of developing students' skills in order to spot oppressive discourses and practices in society. Learning to spot sexist, racist, classist, homophobic and intolerant discourses in educational curricula and media is an important skill for all students to develop (Tatum, 1997).

In conclusion, we raise the importance of intercultural competences and the importance of intercultural education and learning. Therefore, “a fundamental objective of the schools is to strive to create a nation and a destiny providing an incredible cultural, ethnic and linguistic diversity. To congeal this common destiny, educators must respect and value the cultural opportunities and all the features that students from different cultural groups bring to school. At the same time, educators need to help students acquire the skills, knowledge and values to become active citizens of a larger community” (Banks, 2001, p.5).

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## Cluster - Smart Specialization Relationship\*

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### Abstract

*Knowledge, the adoption of new organizational solutions and new technologies, continuous innovation help ensure the economic development, the competitive advantage, the activity of the research-development sector and the capacity of economies to implement its results being determinant for innovation.*

*The emphasis of the role of territories in terms of competitiveness and innovation has been accompanied by the development of the phenomenon of clusters, a process associated with the new model of territorial development - smart specialization, the goal of which is to increase the efficiency and effectiveness of the economic system, to contribute to sustainable development.*

*The paper refers to the relationship that is created in the regional economic space, between the cluster phenomenon and that of the strategy of smart specialization; in the process of transformation of the regional economy, the smart specialization strategies take over clusters' policies and clusters integrate activities specific to areas of technological knowledge.*

**Key words:** cluster, smart specialisation, strategy, competitiveness.

**J.E.L. classification:** O30; R11.

### 1. Introduction

A successful economic development means a continuous upward process, in which the business environment of a nation evolves in order to support and encourage complex and productive competitive methods.

The advent of new theories on the endogenous economic growth taking into account other growth assumptions as compared to the neoclassical model has led to the change of the perspective on the determinants of competitiveness, among the key elements of influence being considered expenditure on research and development, increase of innovation capacity, education level, investment in human capital etc. .

Knowledge, the adoption of new organizational solutions and new technologies, continuous innovation are elements which help ensure the economic development, the competitive advantage, the activity of the research-development sector and the capacity of economies to implement its results being determinant for innovation.

### 2. Clusters, conceptual approaches

The cluster, a widely debated topic among entrepreneurs, politicians and scientists, has developed and strengthened its position through globalization, the competitiveness of clusters influencing the economic development of the regions in which they are located. (European Commission, 2009 cited by Mempel-Śnieżyk, 2013).

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The study of clusters has gone through several stages in time, theorists bringing different contributions based on the role of regional resources with local specificity, and the importance of division of labour in clusters. (Storper, 2000 cited by European Commission, 2002).

The first mentions of a cluster were found in the study performed by Alfred Marshall, on the industrial agglomerations in England, (Marshall, 1920), in which he finds that these geographical clusters of businesses in a particular sector create positive involuntary economic influences (so-called externalities): *labour force* (wage growth, specialization and up-skilling), *specialization of suppliers* (increase of product quality and decrease of costs), *technology transfer* (flow of information and knowledge between existing businesses within the geographic concentration).

Towards the concept of industrial cluster, Michael Porter has a different approach (Porter, 1990), considering **clusters** “geographic concentrations of interconnected companies, specialized suppliers and service providers, firms in related industries, and associated institutions (eg. universities, standard agencies, and trade associations) in particular fields that compete but also cooperate”. (Porter, 2003, p.253) According to this vision, the clusters are appreciated as a component of any economy, particularly those in the areas more economically developed. The author emphasizes the role of clusters in the conditions of globalization of markets and the increase of complexity of economies based on knowledge (Porter, 2000, 2003).

Clusters are considered “regional concentration”, but also an “*innovation environment*” (The European Cluster Memorandum, 2007), some of its definitions being relevant:

- “Clusters – regional concentrations of specialized companies and institutions linked through multiple linkages and spill-overs – provide an environment conducive to innovation. They enable “open innovation”, the creation and refinement of new ideas in networks of cooperating companies and institutions” (The European Cluster Memorandum, 2007, p.1).
- „Clusters are powerful engines of economic development and drivers of innovation in the EU. They provide a fertile business environment for companies, especially SMEs, to collaborate with research institutions, suppliers, customers and competitors located in the same geographical area”. (Part of the 5<sup>th</sup> European Innovation Summit, 2013 - *Towards world class clusters: policy support and funding instruments at EU and regional level*)

### 3. The implications of clusters in smart specialization

The economic growth, important objective of any nation, involves changes in knowledge, new technology, which assumes establishing certain correlations systems in the structures of regions.

The emphasis of the role of territories in terms of competitiveness and innovation has been accompanied by the development of the phenomenon of clusters, a process associated with the new model of territorial development - smart specialization, the goal of which is to increase the effectiveness and efficiency of the economic system, to contribute to its sustainable development.

The globalization of markets has increased the tendency of investment of resources in regions with economic potential, attractive for industry, the clusters becoming one of the important factors in economic development, influencing the growth and specialization in the region (European Commission, 2009 cited by Mempel-Śnieżyk, 2013).

Smart specialization is a new strategy of economic transformation, at local level, which aims to promote the efficient and effective use of public investments in research, based on stimulating innovation at regional level, which should lead to economic growth and prosperity of the regions.

The concept of smart specialization refers to finding new forms of sustainable development, being an alternative of the promotion of investments on areas and sectors and in this regard, one can identify two models of approach to regions` competitiveness (Ketels, 2013 cited by Mempel-Śnieżyk, 2013) (Table no.1).

Table no. 1 Models of approach to competitiveness

Types of approach to competitiveness	Way of action	Consequences
Traditional approach	Identifying and trying to penetrate old markets.	Failure to reach an intensely competitive market (without unique values).
New approach	Identifying local values, including a base of existing clusters. Studying opportunities of adjacent areas, which leads to increased added value.	Developing long-term competitive, sustainable advantages.

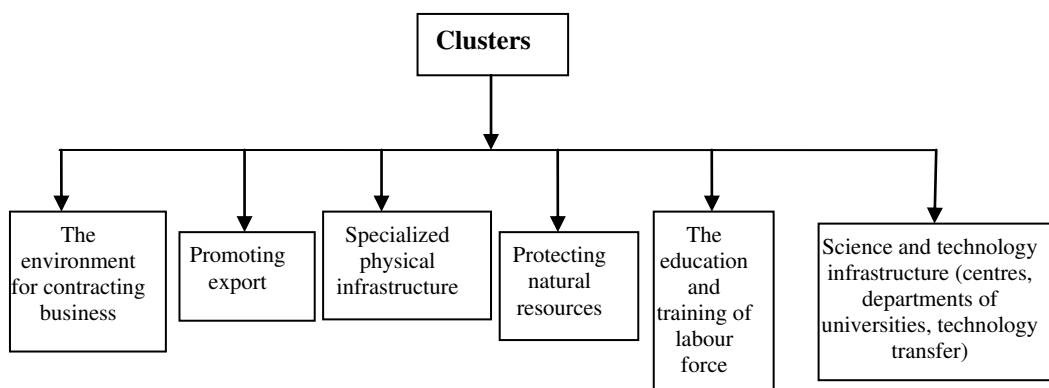
Source: adaptation from Mempel-Śnieżyk, A. 2013, Smart Specialisation and Clusters in Economic Growth

The importance of the concept comes from one of the main objectives: identifying the areas of the region having a high competitive potential, which can help regions access global markets and the international value chain by strengthening and promoting specialized areas.

Debates on smart specialization highlighted the need to clarify the role and purpose of clusters in improving the entrepreneurial process.

The establishment of clusters is achieved by using local forces, their priority areas of impact being exemplified in the chart below (Figure no.1):

Figure no. 1 The main areas of influence of clusters in the regional development



Source: Ketels, Christian, H., M., 2013, Clusters and Cluster Initiatives: Recent Learnings, Current Challenges.

The manifestations of clusters in the regional economy are expressed in areas such as: infrastructure of knowledge, science parks, export promotion, increasing network relations between regional authorities, businesses environment, universities, (Mempel-Śnieżyk, 2013). By facilitating the dissemination of knowledge and increase of innovation, specialization, competitiveness of companies and productivity, the promotion of clusters is an argument of their relationship with the smart specialization process or a motivation of their usefulness in the context of smart specialization.

The implementation of smart specialization requires innovation, depending on the potential of the regions, and its materialization is achieved by engaging stakeholders, the business environment, research centres, universities. Thus, a strengthening of the existing scientific, technological specialization model, of the business environment is achieved, stimulating the emergence of new fields of economic, technological activity.

In the regional economic space, the cluster phenomenon is directly related to the strategy of smart specialization, but with no equivalence, the two concepts showing both similarities and distinctions (Table no.2):

Table no.2 Some common features and distinctions between the concepts: smart specialization strategies and clusters

Smart specialization strategies S3	Clusters
<b>The common elements</b> of both concepts refer to:	
<ul style="list-style-type: none"> <li>• Considering the factors of productivity and innovation as basic determinants of competitiveness and sustainable growth.</li> <li>• Considering the advantages of proximity in local spill-over processes. By making cross-sectoral connections, smart specialization involves innovation in new connections, which leads to the dissemination of knowledge in various fields, the process falls in line with theories on clusters that include business networks and associations, leading to "emerging clusters".</li> </ul>	
<b>Distinctions</b>	
1) Facilitating the spread of knowledge by exploiting the related variety between its areas. Searching for market opportunities, stimulating the development of new markets at the level of an area.	1) The focus is on groups of companies from related industries having infrastructure and resource bases, respectively, inputs markets.
2) Determining extensive action aimed at transforming regional economies, incorporating innovative practices in the economy and society and the emergence of new knowledge-based fields.	2) The objective generally is to enhance the performance of a group of companies, members of the cluster, as clusters are elements of the innovation system.
3) The focus is on Research, Development and Innovation, representing the basics, essence of the concept of smart specialization; the large group of innovation processes includes relevant processes corresponding to those of the cluster category.	3) Even if Research, Development and Innovation are important elements of the cluster, there are clusters that require no guidance based on research and innovation.
4) Highlighting the significance of local entrepreneurs taking the lead in innovation, the ability to make connections in the fields of knowledge, crucial for competitiveness.	4) Considering the role of entrepreneurial actors, but emphasizing links, networks, social processes, as key elements of competitiveness.

Source: adaptation from European Commission - Directorate-General for Research and Innovation, 2013, The Role of Clusters in Smart Specialisation Strategies

### 3.1. Some practices of clusters used in smart specialization strategies

Smart specialization strategies take over clusters' policies in the process of transformation of the regional economy and clusters integrate activities specific to areas of knowledge and technology. The process involves adaptation to regional environment, corresponding to the capacities of approach of new emerging areas, in various sectors.

The promotion of smart specialization strategies by national and regional governments results in the strengthening of the competitiveness of companies and thus of clusters and hence, the approach based on innovation clusters is an element of integration of strategies. (OECD, 2012).

We can exemplify some leverage practices of clusters, by means of which they offer elements capable of being used in smart specialization strategies:

**Prioritization.** In order to identify areas of intervention, of priority for smart specialization, one uses quantitative and qualitative approaches also considered in the case of clusters for selection of new areas of knowledge that go beyond the limits of traditional industry; interventions by means of cluster elements can lead to the dissemination of knowledge between areas.

**Multi-level governance.** Clusters have different funding sources in terms of origin, some of them having experience in harmonizing sources from public funds, which can be an element of information for smart specialization.

**Cross-border cooperation.** Cluster's boundaries are defined, usually based on economic research, but the geographical outline of the cluster is often set administratively. The challenge now is to consolidate the international dimensions of clusters and of areas of smart specialization. Smart specialization strategies that go beyond regional borders are based on complementarities, as cross-clusters can be used to define areas of smart specialization.

The contribution of clusters to smart specialization, the possibility of adequacy and integration of cluster tools in a regional specialization strategy depends on the level of regional competitiveness:

- In **more developed regions**, the higher presence of share capital and of an advanced business environment provides favourable conditions for the emergence of clusters that can help organize and improve the region's economic policy;

- In **less developed regions**, the lower level of resources and the presence of a weaker business environment do not encourage the formation of strong clusters.

EU policies can help increase the efficiency of clusters contribution to smart strategies by:

- promoting transregional knowledge in cluster policies;
- developing data infrastructure on clusters and cluster policies;
- promoting better use of the territorial cooperation programme for cross-border cooperation.

The integration of cluster policies in smart specialization strategies requests the intervention of policy makers, on identifying existing clusters in regions which apply their own principles of smart specialization, based on stakeholders' consultation and on the analysis of regional values, on the interaction between sectors, clusters, technology. The aim is to stimulate the development of areas with a critical mass of growing activities with value added potential and the orientation of the economy towards employment. At the same time, the existence of developed clusters can prevent one exceeding the traditional boundaries of clusters, the shift to new areas of specialization, which may hamper the implementation of smart specialization process in a region.

#### 4. Conclusions

Smart specialization contributes to the strengthening of traditional industries with new technologies, to the finding of new market niches, leading to the increase of the competitive advantage of regions; this process can be also an instrument to overcome social, environmental, climate, energetic, resource efficiency challenges.

The strengthening of internal connections, the strengthening of cooperation and connection with other regions, clusters, actors in the area of innovation can stimulate and develop innovation policy.

The approach of smart specialization is a guarantee of the effective use of funds and of an efficient coordination between regional, national and European policies, helping to increase the EU's competitiveness by upgrading their potential, which will allow it to face and withstand international competition and challenges globally.

Innovation contributes to a better development of clusters, determining an increase in competitiveness, and hence, in welfare and employment, which reveals the influence of clusters on the degree of economic development of the territory.

Clusters are included in the mix of instruments of smart specialization strategies, but they are not equivalent, the latter having a higher area coverage and wider competence.

The formation and association in clusters is important in order to achieve smart specialization, reflecting the capabilities and shortcomings of the business environment in the region, achieving the interaction between the innovative system structures in the region, responding to the growth requirements of the knowledge-based economy.

The trend of combining cluster policies with those of the specialization strategies presents the potential advantage to develop common strategies, focused on entrepreneurial discovery, innovation and new technologies, finding market opportunities.

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# Determining Factors of Entrepreneurial Motivation: Evidence from EU Countries

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## Abstract

*The aim of our paper is to identify the main determinants of entrepreneurial motivations and to empirically evaluate their impact in 18 EU member states, over the period 2002-2014. The empirical analysis is performed based on data from the Global Entrepreneurship Monitor and the World Bank. In the econometric model, we considered as dependent variables, alternatively, opportunity-driven entrepreneurial activity and necessity-driven entrepreneurial activity. As independent variables we took into account 11 factors that could have an impact on the motivations of entrepreneurs.*

*The empirical results indicate that the motivation of entrepreneurial activity is influenced by unemployment rates, inflation rates, tax rates, domestic credit to private sector, fear of failure, entrepreneurial intentions and perceived capabilities.*

*Overall, our study highlights that macroeconomic conditions and the perception of the entrepreneurs about entrepreneurial activity are affecting significantly and with opposite signs the entrepreneurial activity depending on the motivation of entrepreneurs (opportunity or necessity).*

**Key words:** entrepreneurship, motivation of entrepreneurs, entrepreneurship opportunity, necessity entrepreneurs

**J.E.L. classification:** L26, M13, C33

## 1. Introduction

An important role in promoting and supporting entrepreneurship is played by knowing and understanding entrepreneurial motivations, which is an area of interest for researchers in the field of entrepreneurship. According to the specialized literature (Robichaud *et al.*, 2010; Stephan *et al.*, 2015), entrepreneurial motivations are various, including the desire of independence, financial motivations, factors related to family and work-related factors.

Starting with 2001, the Global Entrepreneurship Monitor (GEM) highlights and analysis two types of entrepreneurship, according to the main reason why individuals engage in entrepreneurial activities, namely: opportunity driven entrepreneurship and necessity driven entrepreneurship (Reynolds *et al.*, 2001), which have a range of positive economic effects and are influenced by many factors. Opportunity entrepreneurs are the people who start a business in order to pursue an opportunity, while necessity entrepreneurs are individuals who are forced to start a business because they do not have other option of employment or the options that exist are unsatisfactory. Knowing the key factors that have impact on the motivations of entrepreneurs is of interest both for researchers and for policy makers at various levels, in order to adopt appropriate measures to promote and support entrepreneurship at national, regional and international level.

In this context, the objective of our research is to identify the key factors that have impact on the entrepreneurial motivations and to evaluate empirically their influence on 18 EU member states,



over the period 2002-2014. To achieve these goals, our paper is structured as follows: section 2 discusses the variables analyzed and the methodology of research; section 3 presents and discusses the results of our empirical research, and section 4 includes concluding remarks.

## 2. Data and methodology

The objective of our analysis is to determine how the factors considered as explicative variables, presented below, influence entrepreneurial motivations. For this, we consider two representative indicators which express the motivation of individual in starting a business used by Global Entrepreneurship Monitor (GEM): opportunity-driven entrepreneurs (*odea*) represented by the entrepreneurs who have taken action to create a new business by pursuing perceived business opportunities, and necessity-driven entrepreneurs (*ndea*) which represent the entrepreneurs who have created a new business because of the lack of better employment alternatives. The distinction between necessity driven entrepreneurs and opportunity driven entrepreneurs is of interest because the expected impact of the considered variables on the entrepreneurial activity may be different, depending on the motivation for entrepreneurship.

Entrepreneurial motivations are influenced by many economic factors, that are explanatory variables in our model and that we have selected based on literature in the field. The analysis was based on annual data provided by the GEM and the World Bank, for the period 2002-2014. Our research focuses on the 18 European Union member countries, namely: Belgium, Croatia, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Netherlands, Portugal, Romania, Slovenia, Spain, Sweden, and United Kingdom.

In the following, we presented the explanatory variables of our models and their expected relationship with the dependent variables. It is interesting to observe how the economic context influences the entrepreneurial activity in the European countries. For this we first take into account the *GDP (gdp)* and we observe that, normally, growth periods are favourable for investments and thus for the opportunity-driven entrepreneurs, while crisis periods, associated with an increase of unemployment and reduction of income, determine people to find alternative sources of revenues, becoming then necessity entrepreneurs. Another important macroeconomic factor is *GDP per capita (gdpc)*. An increase in income per capita determines higher levels of entrepreneurship, because the higher income level of the population influences the demand on the market and implicitly the business opportunities. Some studies (Reynolds *et al.*, 2001; Wennekers *et al.*, 2005; Naudé, 2009; Albiol, 2014) consider income per capita as an important determinant for entrepreneurial activity. They also show that the number of opportunity entrepreneurs increases with the economic development, while the number of the necessity entrepreneurs decreases. Starting from this, we consider that the influence of *GDP growth rate* is positive on the overall entrepreneurial activity and on the opportunity entrepreneurs, while the impact on the necessity entrepreneurs will be a negative one. In the case of GDP per capita we expect a positive sign for the opportunity-driven entrepreneurs and a negative one for the necessity-driven entrepreneurs.

The *unemployment rate (unempl)* it's another factor that may influence the motivations for entrepreneurship, due to the fact that the increase in unemployment determines an increase in entrepreneurship determined by necessity; but a high level of unemployment can also be linked to a stagnation of economic growth, which leads to fewer entrepreneurial opportunities (Wennekers *et al.*, 2005; Vidal-Suñé and Lopez-Panisello, 2013). In the specialized literature there is no agreement regarding the sign of the relationship between the unemployment rate and motivations for entrepreneurship. We consider that this relationship should be negative for the opportunity driven entrepreneurs and positive for the necessity driven entrepreneurs, since a higher unemployment rate may lead to an increased perception of business opportunities among entrepreneurs due to necessity but discourages the opportunity-driven entrepreneurs.

Another economic factor that we consider as a determinant of the motivation of entrepreneurship is the *inflation rate (infl)*. Some studies (Vidal-Suñé and Lopez-Panisello, 2013; Sayed and Slimane, 2014), show that in the conditions of an inflation increase can be registered increased expectations of the earnings of entrepreneurs. But, inflation can discourage entrepreneurship due to rising costs for starting a business (Salman, 2014). Therefore, the relationship that we expect is negative for de opportunity driven entrepreneurs and positive for the

necessity driven ones.

In the category of economic factors we also analyze the *total tax rate (tax)*. Increasing tax rates may have a negative impact on entrepreneurship by discouraging the creation of new business (Sayed and Slimane, 2014; Salman, 2014). Regarding the entrepreneurial motivations, we expect a negative relationship between tax rates and necessity entrepreneurs but an opposite sign for the opportunity entrepreneurs.

Starting and running a business requires financial resources, and an easy access to finance is crucial for the development of entrepreneurship. So, we also consider as an independent variable the percent of *domestic credit to private sector offered by banks (dcps)*(as % of GDP). This variable also represents a proxy for financial development and has an important role in promoting entrepreneurship. An increase of the share of domestic credit to private sector offered by banks may express an easier access to bank financing, which has a positive impact on entrepreneurship (Reynolds *et al.*, 2001; Aghion *et al.*, 2007; Naudé, 2009; Vidal-Suñé and Lopez-Panisello, 2013; Sayed and Slimane, 2014). Thus, we expect a positive impact on the motivation of entrepreneurs.

Another category of indicators refers to the perception of the entrepreneurship, for example *fear of failure (fof)*, *entrepreneurial intentions (eint)* and *perceived capabilities (capab)*. These indicators assessed for those seeing opportunities may prevent them from actually starting a business, for example the fear of failure is very important for the opportunity entrepreneurs and negatively influence their choice to start-up a new business (Albulescu and Tămășilă, 2014; Albiol, 2014). So, a negative sign is expected, while for the necessity driven entrepreneurs these indicators may not discourage them in starting a new business, due to the absence of an alternative to find a work place.

We also want to test if *time and cost of starting a business* have influence on the motivation of entrepreneurs. Naudé (2009) shows that start-up costs do not have a significantly impact on opportunity and necessity entrepreneurship. Comparatively, Ho and Wong (2007) and Reynolds *et al.* (2001) show that business costs have a negative impact only on opportunity driven entrepreneurship, but have no influence on the necessity entrepreneurship. We expect, like in the other cases opposite signs for the relationship of this variables and opportunity and necessity entrepreneurial activity.

Starting from those stated above we formulate the following hypothesis:  $H_1$ : *the economic conditions and the perception of entrepreneurship have a significant impact on the motivation of entrepreneurs*;  $H_2$ : *the determinants of opportunity and necessity entrepreneurship have opposite signs*.

### 3. Results and discussions

In order to statistically analyze the data, we first applied unit-root tests on every variable included in the panel data, to test if data is stationary and control for false relationships among variables. The null hypothesis is that all panels contain unit-root. This hypothesis was rejected in all the cases.

Table no. 1. Descriptive statistics of the variables

Variable	Minimum	Maximum	Mean	Std. deviation
<i>odea</i>	18.38	80.47	51.49	12.09
<i>ndea</i>	3.22	50.17	19.33	10.00
<i>gdp</i>	-14.35	11.90	0.85	3.63
<i>gdpc</i>	-12.92	12.93	0.62	3.66
<i>unempl</i>	2.80	27.20	9.18	4.38
<i>infl</i>	-4.48	15.40	2.38	2.08
<i>tax</i>	18.40	76.70	44.57	13.46
<i>dcps</i>	0.22	202.19	102.02	44.35
<i>fof</i>	15.12	61.29	36.64	7.14
<i>eint</i>	1.55	31.70	9.51	5.05
<i>capab</i>	14.58	60.67	42.67	7.87

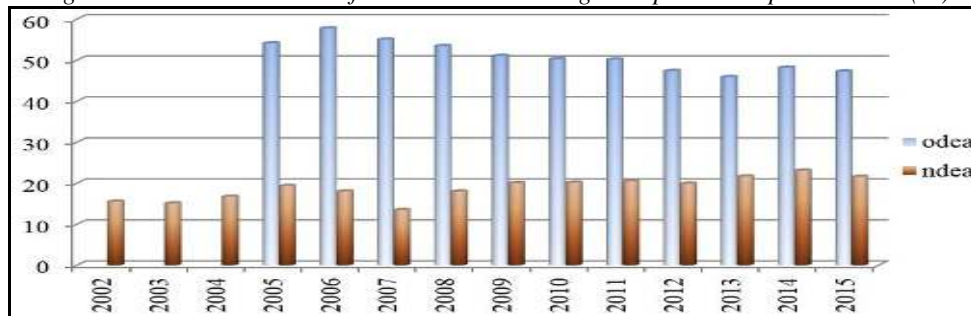
<i>cost</i>	0.00	22.50	5.84	6.33
<i>time</i>	2.50	70.00	14.59	13.12

Source: processed by the authors after E-views results

The results of the descriptive statistics of the explanatory and dependent variables are presented in Table 1. They show that the biggest standard deviation was observed for the domestic credit to private sector. This indicator has registered a significant disparity which indicates important differences between countries regarding their degree of financial development.

On the other hand, the descriptive statistics of the dependent variables show that both opportunity entrepreneurs and necessity ones have high standard deviation. This fact shows that there are important differences between countries but also important variations for the period considered in the analysis. From Figure 1, we observe that the percentage of necessity driven entrepreneurs its half (or smaller) of the percentage of opportunity driven entrepreneurs. We also observe a slightly increase of the necessity entrepreneurs accompanied with a slightly decrease of the opportunity ones in the period of the financial crisis.

Figure no. 1. The evolution of indicators measuring entrepreneurship motivation (%)



Source: processed by the authors after GEM Key indicators (2015)

Before the regression analysis, we have tested all the variables against autocorrelations. We have also taken into account the problem of multicollinearity. For our analysis we have considered the reference point for establishing a high correlation as being 0.80, according to Bryman and Cramer (2001). The results of the correlation test applied to our variables shows that there exists multicollinearity between GDP and GDP/capita, and also between tax rate, unemployment, entrepreneurial intentions, cost and time. So, in order to obtain accurate results when applying the regression analysis we use separate models of regression, by eliminating the highly correlated variables.

We want to test which are the factors that are influencing the motivation of the entrepreneurial activity in the European Union. Thus, we use two regression models that have different dependent variables: opportunity-driven entrepreneurial activity and necessity-driven entrepreneurial activity. The results obtained are centralized in Table 2.

Table no. 2. The results of the regression models

	odea		ndea	
	Coefficient	Prob.	Coefficient	Prob.
<i>gdp</i>	.081	.716	-.166	.326
<i>gdpc</i>	.333	.196	-.142	.504
<i>unempl</i>	-1.394***	.000	.918***	.000
<i>infl</i>	-1.082***	.005	.730**	.013
<i>tax</i>	.079	.258	-.097**	.092
<i>dcps</i>	.039**	.031	-.093***	.000
<i>fof</i>	-.187*	.089	.184**	.021
<i>eint</i>	-.573***	.001	.702***	.000
<i>capab</i>	-.129	.278	.275***	.000
<i>cost</i>	-.121	.344	-.046	.557
<i>time</i>	-.044	.541	.054	.090

Const.	7.530***	.000	.056	.989
F-test	16.43***	.000	20.66***	.000
R <sup>2</sup>	.3797		.4172	

\*\* and \*\*\* denotes that coefficients are significantly at the 95% and 99% level.

Source: processed by the authors after E-views results

Based on the results of the static regression models and the statistically significant coefficients, we can conclude that unemployment rate, inflation rate, tax rate, domestic credit to private sector, fear of failure, entrepreneurial intentions and perceived capabilities are the main determinants of the motivation of entrepreneurs. When we analyze separately the two models we observe some differences, so the main determinants of opportunity-driven entrepreneurial activity are: unemployment rate, inflation rate, domestic credit to private sector, fear of failure and entrepreneurial intentions. On the other hand, the necessity-driven entrepreneurial activity is determined by unemployment rate, inflation rate, total tax rate, domestic credit to private sector, fear of failure, entrepreneurial intentions and perceived capabilities. These results are confirming hypothesis 1.

When analysing the coefficients we observe that the significant ones have opposite signs depending on the motivation of the entrepreneurial activity, confirming hypothesis 2 and being in accordance with our expectations. *Unemployment rate* is statistically significant for both models, and has a negative coefficient for opportunity entrepreneurs and a positive one for necessity entrepreneurs, in line with our expectations. This can be explained by the fact that the increase in unemployment determines an increase in entrepreneurship determined by necessity, and discourages the entrepreneurship determined by opportunity.

For the *inflation rate* the coefficient is significant for both the models considered, but with different impact on entrepreneurial motivation, and in accordance with our expectations. Thus, the inflation rate influences negatively the opportunity entrepreneurs, because a higher rate of inflation determines the increase of costs for starting a business. On the other hand, the inflation rate has a positive impact on the necessity entrepreneurs because of the increase in their expectations of earnings, in the conditions of increasing the level of prices for products and services.

The *total tax rate* has a significant coefficient only for the necessity driven entrepreneurs, and it's a negative one. This result can be explained by the fact that an increase of the tax rate as percentage of commercial profits determines a reduction of the profit of entrepreneurs, discouraging the necessity entrepreneurial activity.

*Domestic credit to private sector* has a statistically significant influence for both the models, but with different signs. For the opportunity driven entrepreneurs the coefficient is positive, fact that shows that an increase in the share of loans provided by banks could indicate an easier access to financing, which could stimulate the creation of new businesses from the part of this type of entrepreneurs. On the other hand, for necessity entrepreneurs the sign is negative. One possible explanation for this situation could be that, although it is registered a decrease in loans provided by banks, for entrepreneurs motivated by necessity the necessity dominates, so although they do not have access to credit, will still start new businesses but will seek other non-banking financing sources, maybe some informal resources (from family and friends).

The perception about entrepreneurship expressed by *the fear of failure* and the *entrepreneurial intentions* has an important influence on entrepreneurial motivation, but with different signs, in accordance with our expectations. The negative sign for opportunity entrepreneurs can be explained by the fact that they are following opportunities on the market and are negatively affected by the possibility of failure. On the other hand, the entrepreneurs motivated by necessity not being able to procure income in other ways will not be discouraged by the perception about entrepreneurial activity on the market, their necessity being higher and more important than the fear of failure. Also, the necessity driven entrepreneurs are stimulated by the increase of entrepreneurial intentions on the market, because this increase shows determines an increase of their confidence in the evolution of the entrepreneurial activity. But, with an opposite sign appears the coefficient for the opportunity entrepreneurs, when entrepreneurial intentions are higher than the probability of making an unique activity with higher profits is smaller. For the necessity entrepreneurs we observe also a significant positive impact coming from the *perceived capabilities*,

if the necessity driven entrepreneurs think they are capable to start-up and run a business then they will increase their activity.

The other considered variables, such as GDP, GDP/capital, cost of start-up procedure and time needed to start a business have not statistically significant coefficients for either one of the considered models. The effects of the considered variables combined have a relatively small impact on the motivation of entrepreneurial activity, as shown by R-squared value of around 40%. These results show that there are also other factors that may have an important influence on entrepreneurial motivation, that should be included in the analysis, this being one of our future directions of the research.

#### 4. Conclusions

In our paper we have investigated the determinants of entrepreneurial motivation from 18 EU countries included in the analysis. The purpose of our study was to test the formulated hypotheses and to offer evidence with respect to the impact of the considered indicators on opportunity driven entrepreneurial activity and necessity driven entrepreneurial activity.

The empirical results of this research show that a part of the considered indicators are significantly affecting the entrepreneurial motivation in the European Union countries, according to the results of other empirical studies. Thus, the motivation of entrepreneurial activity is influenced by unemployment rate, inflation rate, total tax rate, domestic credit to private sector, fear of failure, entrepreneurial intentions and perceived capabilities. When we analyze separately the two models we observe some differences, so the main determinants of opportunity-driven entrepreneurial activity are: unemployment rate, inflation rate, domestic credit to private sector, fear of failure and entrepreneurial intentions. On the other hand, the necessity-driven entrepreneurial activity is determined by unemployment rate, inflation rate, total tax rate, domestic credit to private sector, fear of failure, entrepreneurial intentions and perceived capabilities. So, we can conclude that macroeconomic conditions and the perception of the entrepreneurs about entrepreneurial activity are affecting significantly and with opposite signs the entrepreneurial activity depending on the motivation of entrepreneurs (opportunity or necessity) in the 18 European Union countries analyzed.

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## Before and After the European Neighbourhood Policy in Moldova: Past Economic Background, Current Developments

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### Abstract

*Ever since its independence in 1991, Moldova has been struggling to change its international status into a democratic country, with a functional market economy, worthy of being included in the EU 'ring of friends'. The country's economic heritage burdened the pathway to the EU approximation, whereas its corruption stigma still persists.*

*However, efforts to improve the difficult economic situation revealed the country as a fighter for autonomy and progress. Moldova has been constantly appointed as one of the EU's most obedient apprentices. Its inclusion in the European Neighbourhood Policy (2004) and, later on, in the Eastern dimension of this policy (the EaP) was reflected by steady growth.*

*Nonetheless, false friends – such as remittances – have engaged Moldova on a road to provisional success. It is in the hands of the country if reform is to be adjusted to the long term needs of this tiny, yet strong EU partner.*

**Key words:** development, market economy, growth, Moldova, reform

**J.E.L. classification:** F43, F55, F63, H31, H62

### 1. Introduction

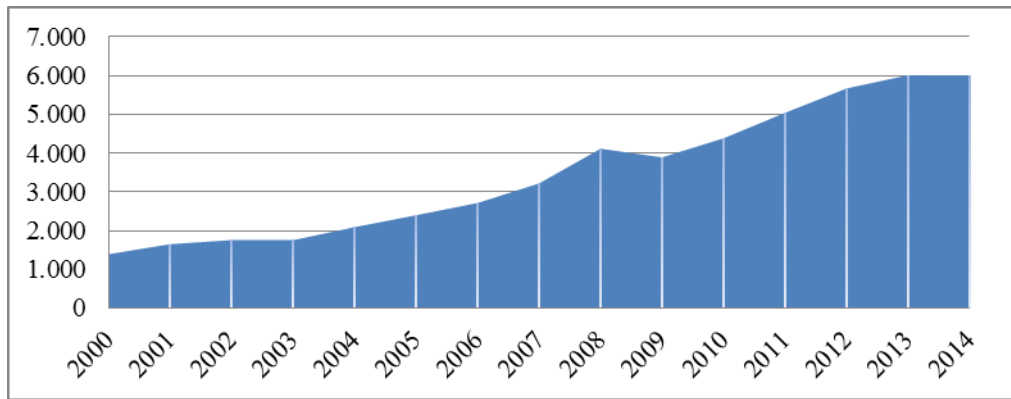
Despite punctual progresses related to the implementation of the Association Agreement with the EU, Moldova is still considered one of the poorest countries in Europe, highly dependent on agriculture and on the remittances of its citizens working abroad: in the EU, in Russia or in other ex-Soviet countries. Moreover, the country is also dependent on the Russian and Ukrainian energy resources. High political instability and weak administrative capacities contribute, along with endemic corruption and tensions in Transnistria, to a vulnerable Moldova, struggling to achieve democratic progress and a functional market economy.

This article aims to briefly analyse Moldova's economic background before and after the inclusion in the European Neighbourhood Policy (ENP) and determine what factors in the past mostly triggered its current development.

### 2. Moldova's economic profile between 2000 and 2014: a roadmap to recovery?

After its independence in 1991, Moldova experienced a difficult economic era in which the country's GDP reduced three times until 1999 (Republic of Moldova, official website, 2016). After 2000, Moldova's economy was relatively stable, the output normalised and GDP values have been on the rise (according to Figure 1) until 2004, but especially afterwards, once Moldova was included in the ENP and, after 2009, in the Eastern Partnership (EaP). Thus, between 2000 and 2004, the country's GDP rose by 33.3% in absolute values.

*Figure 1 Moldova: GDP evolution in current prices between 2000 and 2014 (million euro)*



Source: created by the author based on (Eurostat,2015a)

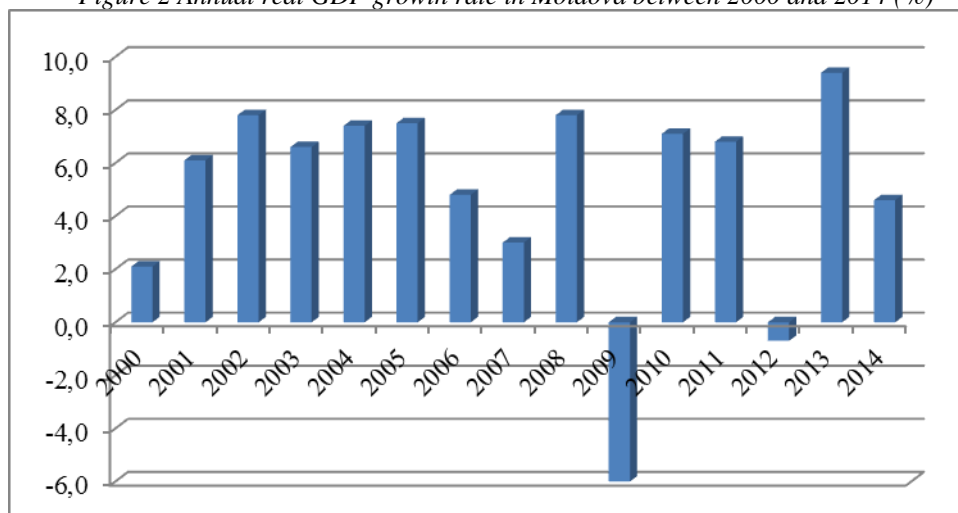
This evolution is also reflected by the real GDP growth rate for the same time sequence: from 2.1% in 2000 to 7.4% in 2004, with a maximum of 7.8% in 2002, later on equaled in 2008 and surpassed in 2013, when it reached 9.4% (according to data in Figure 2).

The difficult economic situation in Moldova between 1998 and 2000 was influenced by the crisis in Russia, but also by drought and by the rising of energy prices. Thus, within the framework of Poverty Reduction and Growth in Moldova, the International Monetary Fund (IMF) approved on the 15<sup>th</sup> of December 2000, a three-year loan of 142 million US dollars in order to help the country reduce its external debt, to support exports and promote a more efficient usage of energy resources (IMF, 2000).

Objectives of this program targeted a budgetary surplus of at least 2% of the annual GDP, thus a reduction of the external debt through the increase of revenue collection and paying down wage and pension arrears. At the same time, the program aimed to decrease inflation, which went from 39.3% in 1999 to 5.2% in 2002, then stabilized around 11-12% between 2003 and 2008 (Institute of Economy, Finance and Statistics in Chişinău, 2011, p.6).

Structural policies also aimed to privatize wineries and telecommunication companies owned by the state, to restructure or liquidate companies with large arrears to the state budget and to develop the legal framework for a market economy.

Figure 2 Annual real GDP growth rate in Moldova between 2000 and 2014 (%)



Source: created by the author based on (Eurostat,2015a)

### 3. Economic activity distribution in Moldova vs. EU-28. Lessons from the more experienced

The volume of goods and services ranked depending on the type of economic activity reflects a high percentage of agriculture in the GDP, even if, for the analysed time sequence (before Moldova’s inclusion in the ENP), values are in a slow decrease: from 28.3% in 2000 to 19.9% in

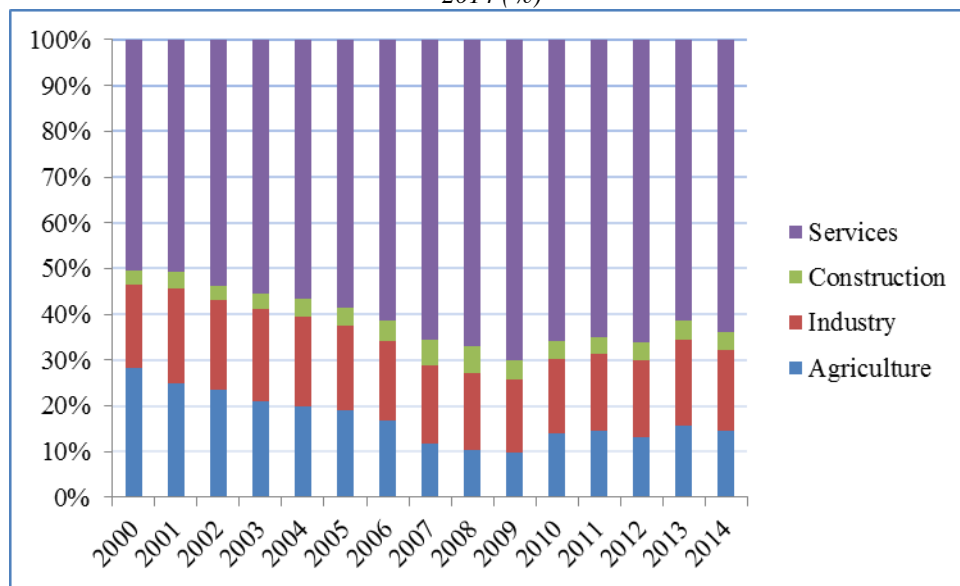


2004 (Figure 3). Industry, on the other hand, is taking a small share in the GDP, from 18.3% in 2000 to 19.6% in 2004, with a maximum value of 20.9% in 2001, for the considered time sequence.

Although services record a high share in the GDP – from 50.4% in 2000 to 56.6% in 2004 – these mainly hide remittances registered as financial services. This tendency holds in recent times as well, remittances covering 25% in the GDP in 2013 (Peiu, 2015a, p. 6).

It is commonly acknowledged that agriculture has the lowest relative value added. Moreover, in Moldova the share of agriculture in the GDP in 2003 was of 20.9 %, whereas for states in the EU-28 was of 2% in the same year. We can therefore conclude that the country should focus on encouraging the industrial sector and services, because the latter has the highest relative value added, especially in IT services or in financial and banking services (Peiu, 2015b, p. 5).

Figure 3 Gross value added depending on the activity type (NACE Rev.2) in Moldova between 2000 and 2014 (%)



Source: created by the author based on (Eurostat,2015c)

The development model of Moldova is characterized by dependence on remittances. These support the consumption of households, which in turn highly contribute to the GDP, thus to the dynamics of the national economy.

Although efficient on medium term, as it alleviates the impact of some economic shocks (the increase in energy prices, embargoes on Moldovan products, drought), this model is not sustainable in the long run as the country becomes more vulnerable once the host countries absorb Moldovan emigrants (Institute of Economy, Finance and Statistics in Chişinău, 2011, p.5-6). In order to provide the country with a sustainable development, investment and exports should represent a priority.

#### 4. Conclusions

Several years after its independence (1991-1999), Moldova experienced a difficult economic situation, but after 2000, steady growth for the GDP in current prices indicates a struggle to recovery. Boosts of economic activity have been given by the IMF poverty alleviation program in 2000 and the inclusion of the country in the European Neighbourhood Policy in 2004.

Structural policies aiming to privatize companies with large arrears to the state budget demonstrated the country’s engagement on the road to reform. However, even if Moldova has also been affected by the financial crisis in 2009, its involvement in the global economy was lower than for the EU members, thus the degree of economic downturn was proportionally lower.

Current developments show that Moldova is still trying to improve its performances. Growth, for instance, is for the moment largely due to remittances from Moldovan citizens working abroad. Agriculture still holds a huge share of the GDP, while financial and IT services are modest.

Moreover, corruption and the bank fraud in 2014 are likely to further contribute to this blurry situation.

All in all, Moldova is still learning to get closer to the EU and, by default, to a model of successful market economy, targeting long term growth and development of key areas in the Moldovan economy, that could help the country efficiently capitalize its assets on the international arena. Supporting investments and promoting exports is considered a better option when it comes to the success of this tiny EU neighbour, bordering both European countries and Russia.

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# Aspirations, Achievements and Challenges of European Social Economic Models

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## Abstract

*Knowing the errors of the past and learning from them, we have a chance to take the right decisions for the present and future. Taking into account the challenges posed by the current global economic crisis, it becomes necessary to concern about finding solutions to overcome its premises and to ensure healthy and sustainable economic growth, social welfare and capable of providing an efficient business environment.*

*The efficiency of the Scandinavian model and the welfare of the population that belong to those countries face difficulties recently due to the increased rate of migration. To avoid an economic crisis northern states must find new solutions as control of social transfers, stimulating investment and efficient management of the migration phenomenon to fade negative fluctuations in the global economy.*

**Keywords:** healthy life expectancy, social market economy, environmental protection.

**Clasificare J.E.L.:** F20

## 1. Introduction

In order to identify measures which have proved their efficiency and performance is heady necessary to make a comparative study of the patterns that govern European society, using for this purpose a rich toolbox of indicators micro and macro: GDP, inflation, unemployment employment rate, budget deficit, balance of payments, etc..

Public budget has a major contribution in achieving balance between collective needs and means cover. Achieving revenue and managing costs efficiently highlights the government's ability to achieve its objectives. As can be seen in Figure 1, the countries belonging to the Scandinavian model accumulate to the state budget over 50% of GDP, well above the average of other European countries.

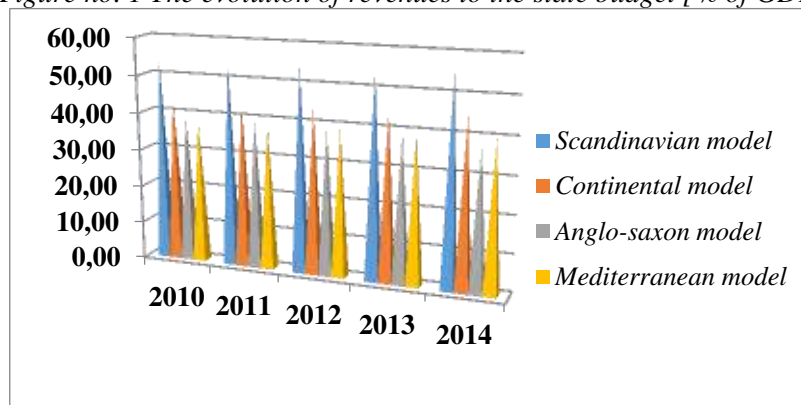
The high level of progressive taxation, which can exceed 50% for those with high incomes, support the whole economy. The basic principle of administrative management is the constant increase in the number of employees. As a result, social protection in Denmark, Finland, Norway and Sweden focuses on rapid reintegration into the labor market of those who lose their jobs. Strong trade unions have a major influence in the fair redistribution of profits to support education, health and social programs at the highest quality. In this context, a state budget can sustain solid high standard health, education and other needs.

The evolution of the budget balance, shown in Figure 2, highlights another important aspect of performing economies in the Nordic countries, namely the excess recorded in the state budget. The realization of this goal is accountable to the fullest extent to Norway, which recorded surpluses in the last 5 years over 10% of GDP.

Mediterranean model which includes Italy, Spain, Portugal and Greece has very poor performance both in terms of collection to the state budget, but also to the budget deficit. The problems originated before the outbreak of the economic crisis when fiscal policies were mainly focused on expenditure with the counterpart in loans, not in sustainable incomes. The euphoria of the years before the crisis led to problems today that can hardly be managed, for example external

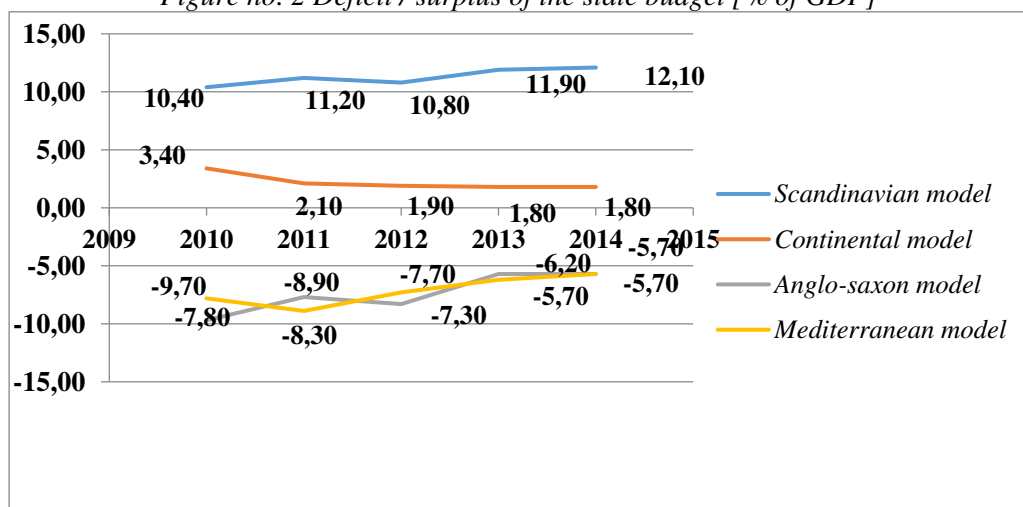
public debt and unemployment.

Figure no. 1 The evolution of revenues to the state budget [% of GDP]



Source: Eurostat

Figure no. 2 Deficit / surplus of the state budget [% of GDP]



Source: Eurostat

Adding more value in the economy is based on the social-economic policies, but also on the efficiency of the private relationship with the public sector. On one hand, struggles occurred with the economic crisis that took hold particularly in southern Europe, have led to the persistence of discrepancies in terms of GDP per capita. In another vein, the Scandinavian model values are nearly two times higher than the Mediterranean model.

## 2. Economic and social development and environmental protection

In recent decades, environmental issues have increased as a result of human activities and management of unplanned development. Therefore, there is a dispute between the importance of environmental protection and preservation of ecosystems with the need to satisfy human desire. Indifference for the environmental protection issues have an adverse effects that can endanger human health, economic resources, natural ecosystems and genetic background, such as pollution, greenhouse effect, global warming and soil erosion. The biggest challenge is global warming that must be managed carefully because it will directly influence the global economy.

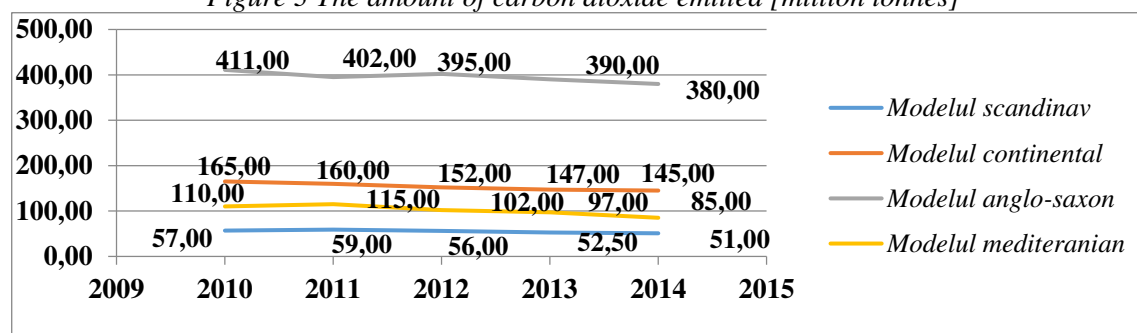
If at first glance people tend to associate pollution with economic development, analysing Table 1 along with Figure 3 we extract the conclusion that countries with a high standard of living, particularly the Nordic states record low values of emissions of carbon dioxide. An exception makes the UK where carbon dioxide emissions reach values that impressive.

Table 1 Classification of countries based on Human Development Index

No.	Country	Coefficient	Position
1.	Switzerland	0,930	3
2.	Germany	0,916	6
3.	Suedia	0,907	14
4.	U.K.	0,907	14
5.	Norway	0,944	1
6.	Denmark	0,923	4
7.	France	0,888	22
8.	Spain	0,876	26
9.	Portugal	0,830	43
10.	Italy	0,873	27
11.	Greece	0,865	29

Source: World Bank

Figure 3 The amount of carbon dioxide emitted [million tonnes]



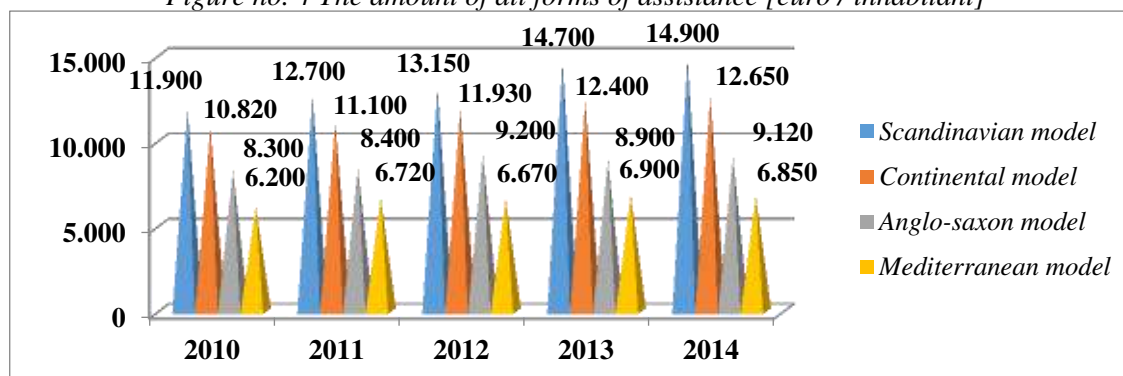
Source: Eurostat

### 3. Study of demographics and social conditions

Social protection, through all forms of social aid existing, is an objective as important as investment, health and education. The biggest challenge in order to improve social protection programs is directing them to people who are unable to work. Dissipation of funds to persons that consider labor no longer necessary presents a major threat to the state budget and implicitly for the economy. The social market economy in its inception was not sustainable because social protection aid arrived in many areas where it wasn't needed. Later, the welfare state model directed the aid to those who were unable to work.

Given that in the Scandinavian model the social protection system is efficient, social aid per capita reaches significant values (Figure 4), well above the average of other countries. Thus, last year submitted for analysis, the amount of all forms of social aid in Scandinavia (14,900 euro / inhabitant) is 2.18 times higher than the same indicator in countries belonging to the Mediterranean model (6,850 euro / inhabitant).

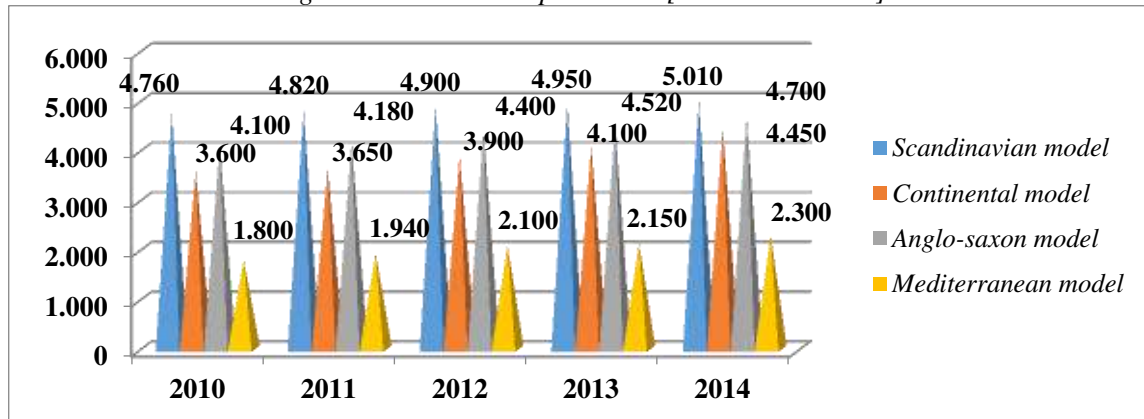
Figure no. 4 The amount of all forms of assistance [euro / inhabitant]



Source: Eurostat

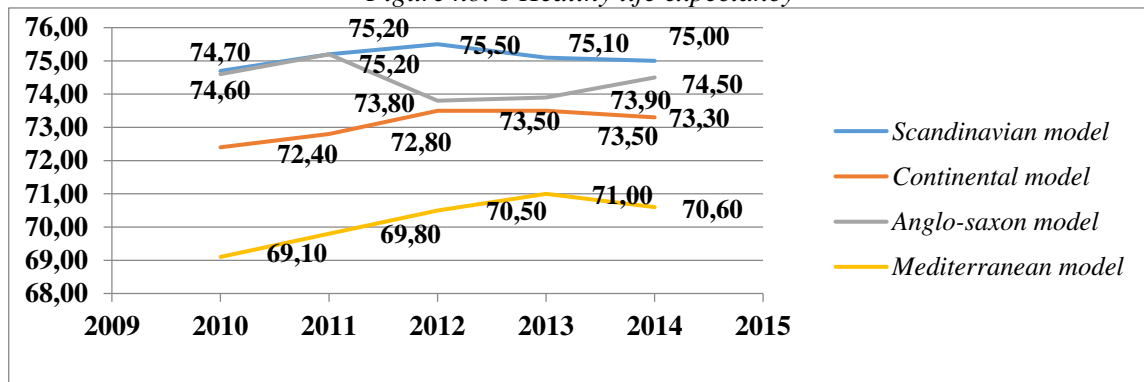
Health expenditure, both the preventive and the treatment have a direct influence on life expectancy. As can be seen in Figures 5 and 6, significant health costs in Scandinavia are assigned higher life expectancy. The average in the Scandinavian model is almost 5 years older than of the Mediterranean. These results are closely correlated with living standards, investments in education and health.

Figure no. 5 Health expenditure [euro / inhabitant]



Source: Eurostat

Figure no. 6 Healthy life expectancy



Source: Eurostat

#### 4. The challenges of European social economic models

Ensuring that states which belong to the four models manage their public finances in a prudent and sustainable is an important goal. A major challenge for long-term sustainability of public finances is aging population phenomenon.

For the first time in Europe, in 2020, people aged over 60 will outnumber those aged under 25. Life expectancy has increased on average eight years after 1960. In fact, the life expectancy of children born today is an average of 82 years for women and 77 years for men. To this increase in life expectancy is added a declining birth rate, which is expected to reach about 1.7 children per woman by 2060. In addition, it is expected that net migration to the EU, which helped until now offsetting these developments would see a significant reduction.

The aging population has a profound impact on society and the economy of Europe. Migration is and will be necessary due to demographic trends. The 1992 net migration exceeded natural increase (the difference between births and deaths) and now represents two thirds of the European population growth. It is estimated that economic dependency - the ratio of people, excluding the number of persons employed - will increase from 1.32 in 2010 to 1.47 in 2030 and the elderly dependency will create unprecedented challenges to financial sustainability and social protection

systems.

Summarizing, this means that the EU will go from having four people of working age for every person aged over 65 to a ratio of only 2 to 1. Such demographic changes will have implications for public finances in case of pension benefits, the costs of health and long-term care and other costs related to age.

The effects of an aging population will not do, however, felt immediately, especially as long as the workforce continues to grow. Rising unemployment can only provide a temporary depreciation, so that eventually, demographic change will weigh heavily on the economy of Member States.

To ensure long-term sustainability of public finances in the face of an aging population there must be found a viable balance between public revenue and public expenditure envisaged. In the four European social economic models, younger people, aged between 0 and 14 years represented 15.6% of the total population on 1 January 2014, while those aged 15-64 accounted about two-thirds (66, 2%) of the total, which means that older people (over 65 years) represented about 18.2% of the population. Another barrier is the issue of capital gaps, namely the distribution of income in the economy. While GDP and wealth continued to grow significantly, inequality began to expand into Europe.

Currently, there are substantial inequalities in income distribution in the European Union: in 2014 in average the richest 20% had incomes 6.3 times greater than the poorest 20%. This ratio varies significantly across the EU, from 3.6 in Slovenia and 3.9 in the Czech Republic to over 7.0 in Greece, Romania, Latvia and Bulgaria, reaching a peak of 7.4 in Spain.

In recent years, the economic performance of the four models are the subject of many political unrest. There are great concerns regarding the fact that Europe is not sufficiently prepared to face new global challenges such as increasing competitiveness of world economies, the need for energy efficiency and security and the rapid pace of technological innovation.

European Union, the Europe 2020 strategy tends towards a smart and sustainable growth. This strategy consists in consolidating public finances, continuing the process of economic integration, investment in energy and transport infrastructure and to further the development of information technology and telecommunications. A strong emphasis is also placed on improving skills and promoting innovation. Even if the Europe 2020 Strategy was adopted, severe financial difficulties of the Greek government triggered a crisis of confidence regarding monetary and financial stability in the euro area. Public perception was that some countries in southern Europe - Greece, Italy, Portugal and Spain - are facing unsustainable public deficits that reduce their ability to increase.

Among the priorities of socio-economic models need to be reflected increasing competitiveness, encourage investment to support capacity building and innovation sector. Data points out that many countries still need to take measures to improve the basic requirements of competitiveness, and institutional foundations and infrastructure. They also must optimize the efficiency of markets, technological readiness and skill levels. It will take the combined effort of all authorities and private businesses to improve the economic potential of these countries.

*Table 1 Classification based on competitiveness index*

No.	Country	Coefficient	Position
1.	Switzerland	5,76	1
2.	Germany	5,53	5
3.	Finland	5,45	8
4.	Suedia	5,43	9
5.	U.K.	5,43	9
6.	Norway	5,41	11
7.	Denmark	5,33	12
8.	France	5,13	22
9.	Spain	4,59	33
10.	Portugal	4,58	38
11.	Italy	4,46	43
12.	Greece	4,02	81

Source: World Bank

## 5. Conclusios

The economic crisis that erupted in 2008 left a big question mark regarding the ability of capitalism to provide solutions for sustainable economic growth. Changing real economies into financial mechamism and bankers' desire to earn more and more revealed the imperfections of the capitalist system. An increasing number of arguments turn our eyes towards the social market economy and liberal social policy mix to provide a viable solution.

The virtues of Scandinavian model, built on a mix of liberal and social policies can be adapted for the construction of a European social economic model. Thus, features such as social cohesion, reduced corruption, education and health system performance can constitute efficiently a skelet for a model of the EU institutions.

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## Global Competitiveness and Innovation in the Period 2013-2015

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### Abstract

*Understanding the relationship between competitiveness and innovation has become a key topic in the literature in the past decades. In the twenty-first century innovation proves to be an engine for competitiveness all over the world. Today it is a global game that stimulates economic growth and improves the quality of life. Innovation is driven by numerous actors such as research institutions, multinational and transnational corporations, small and medium enterprises, academic institutions and individuals. The aim of our paper is to present the evolution of global competitiveness and innovation in the period 2013-2015 by using the Global Competitiveness Index and the Global Innovation Index. Our research is based on a literature review.*

**Key words:** competitiveness, innovation, Global Competitiveness Index, Global Innovation Index, Switzerland

**J.E.L. Classification:** F00, O3

### Introduction

Understanding the relationship between competitiveness and innovation has become a key topic in the literature in the past decades (EIB, 2016; Atkinson, 2013; Clark et al., 2004; Porter, 1990). As a “set of institutions, policies, and factors that determine the level of productivity of an economy” (Sala-I-Martin et al., 2015, p. 4), competitiveness advances when there is a favorable environment for innovation. Enhancing the national innovative capacity may lead to a higher competitiveness of a country. The national innovative capacity is “the ability of a country- as both a political and economic entity- to produce and commercialize a flow of innovative technology over the long term” (Stern et al., 2000, p. 1).

In the twenty-first century innovation proves to be an engine for competitiveness all over the world. Today it is a global game that stimulates economic growth and improves the quality of life. Innovation is driven by numerous actors such as research institutions, multinational and transnational corporations, small and medium enterprises, academic institutions and individuals (WEF, 2014). Almost all innovation involves investments in human capital that mainly “improves a person’s intellect- in other words, education” (Weil, 2009, p. 161).

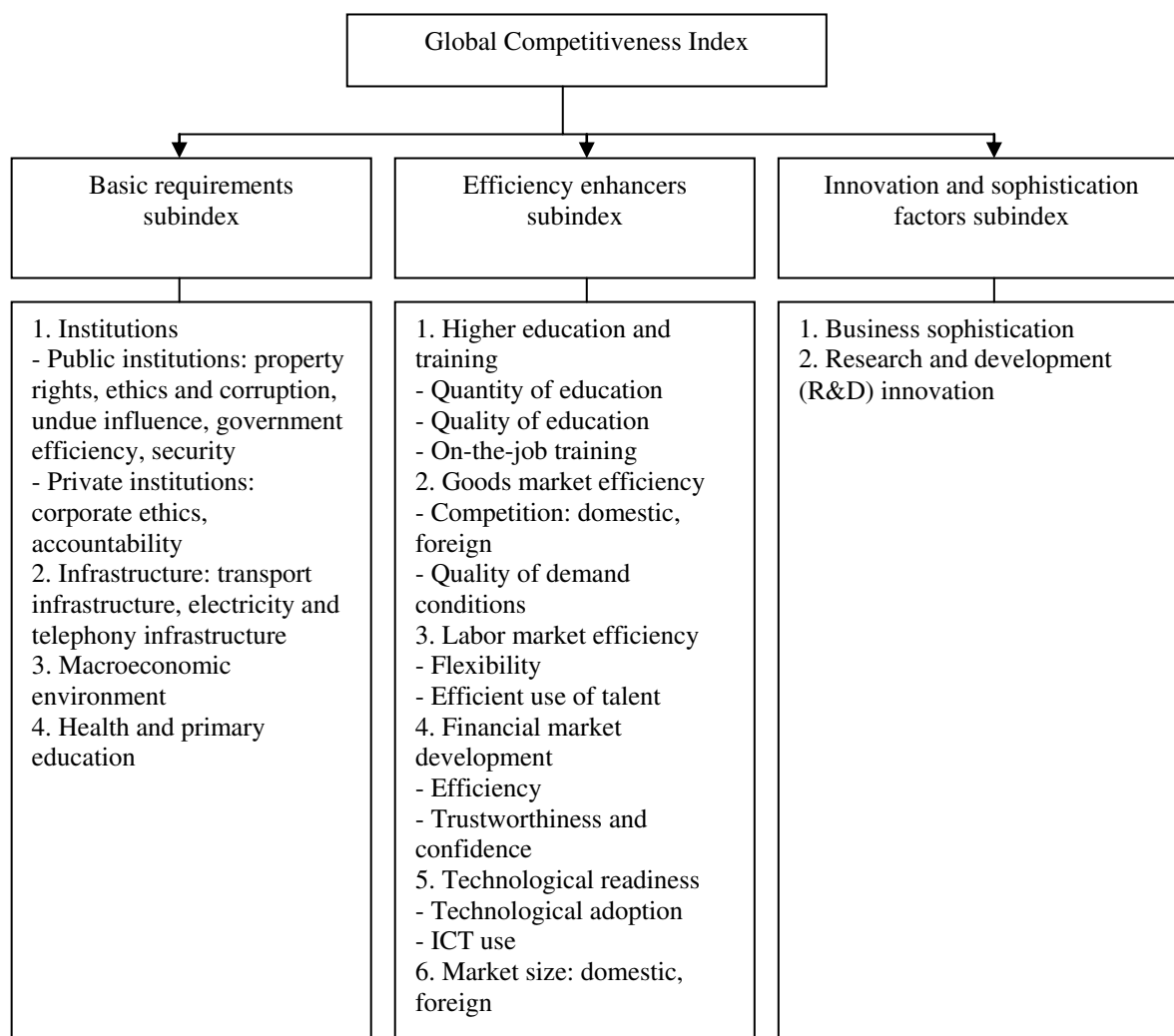
The aim of our paper is to present the evolution of global competitiveness and innovation in the period 2013-2015 by using the Global Competitiveness Index and the Global Innovation Index. Our research is based on a literature review.

## Measuring global competitiveness and innovation in the period 2013-2015

The concept of competitiveness has many facets and can be explored from different points of view. In a new perspective, researchers (Aiginger et al., 2013) have analysed the price competitiveness (e.g., costs, productivity), the quality competitiveness (e.g., innovation, exports, education) and the outcome competitiveness (e.g., life expectation, Gross Domestic Product (GDP)/capita). It can also be analysed at three levels: macro, meso and micro. The macro level concentrates upon strategy, contextualized within a macroeconomic framework (e.g., fiscal policy) whereas the meso level includes “support structures that facilitate inter-companies interaction and cooperation” (Carmo Farinha, et al. 2015, p. xxx), and the micro level relates to the competitiveness of organizations.

In 2005, the World Economic Forum launched the Global Competitiveness Index (GCI), a comprehensive tool that assesses the level of competitiveness of countries. The GCI includes the following three main components (Figure no. 1): basic requirements subindex (e.g., institutions), efficiency enhancers subindex (e.g., higher education), innovation and sophistication factors subindex (e.g., R&D innovation).

Figure no. 1. The GCI and its components



Source: (Schwab, 2015)

The period 2013-2015 witnessed the domination of Switzerland in the GCI top (Table no. 1, 2 and 3). Interesting enough is the fact that Switzerland held the first position in innovation thanks especially to its world-class research institutions, significant spending on R&D by companies, its

capacity to nurture and attract talents, its excellent education system and strong cooperation between the academic world and the private sector (Schwab, 2015).

Table no. 1. The Global Competitiveness Index 2013-2014

Country	Overall index		Basic requirements		Efficiency enhancers		Innovation and sophistication factors	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Switzerland	1	5.67	3	6.15	5	5.44	1	5.72
Singapore	2	5.61	1	6.30	2	5.63	13	5.14
Finland	3	5.54	7	5.97	9	5.30	2	5.65
Germany	4	5.51	9	5.90	8	5.31	4	5.59
United States	5	5.48	36	5.12	1	5.66	6	5.43
Sweden	6	5.48	8	5.95	7	5.31	5	5.46
Hong Kong SAR	7	5.47	2	6.15	3	5.57	19	4.83
Netherlands	8	5.42	10	5.89	11	5.27	7	5.36
Japan	9	5.40	28	5.37	10	5.27	3	5.62
United Kingdom	10	5.37	24	5.48	4	5.45	10	5.15

Source: (Schwab, 2013, p. 11)

Table no. 2. The Global Competitiveness Index 2014-2015

Country	Overall index		Basic requirements		Efficiency enhancers		Innovation and sophistication factors	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Switzerland	1	5.70	4	6.17	5	5.49	1	5.74
Singapore	2	5.65	1	6.34	2	5.68	11	5.13
United States	3	5.54	33	5.15	1	5.71	5	5.54
Finland	4	5.50	8	5.97	10	5.27	3	5.57
Germany	5	5.49	11	5.91	9	5.28	4	5.56
Japan	6	5.47	25	5.47	7	5.35	2	5.68
Hong Kong SAR	7	5.46	3	6.19	3	5.58	23	4.75
Netherlands	8	5.45	10	5.95	8	5.28	6	5.41
United Kingdom	9	5.41	24	5.49	4	5.51	8	5.21
Sweden	10	5.41	12	5.86	12	5.25	7	5.38

Source: (Schwab, 2014, p. 14)

Table no. 3. The Global Competitiveness Index 2015-2016

Country	Overall index		Basic requirements		Efficiency enhancers		Innovation and sophistication factors	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Switzerland	1	5.76	2	6.26	4	5.55	1	5.78
Singapore	2	5.68	1	6.36	2	5.70	11	5.19
United States	3	5.61	30	5.27	1	5.76	4	5.59
Germany	4	5.53	8	5.95	10	5.31	3	5.61
Netherlands	5	5.50	7	6.05	9	5.31	6	5.46
Japan	6	5.47	24	5.52	8	5.33	2	5.66
Hong Kong SAR	7	5.46	3	6.20	3	5.57	23	4.80
Finland	8	5.45	11	5.95	13	5.22	5	5.50
Sweden	9	5.43	13	5.90	12	5.24	7	5.45
United Kingdom	10	5.43	25	5.52	5	5.49	9	5.28

Source: (Schwab, 2015, p. 8)

The above discussion shows that the contribution of innovation to the GCI is important. That is why the Global Innovation Index (GII) constitutes a useful tool for measuring and understanding innovation. The GII is based on the innovation input subindex (e.g., institutions, human capital and research, infrastructure), the innovation output subindex (e.g., knowledge and technology outputs),

and the innovation efficiency ratio (the ratio of the output subindex score over the input subindex score). Since 2011, Switzerland has maintained its leading position in the GII top (Table no. 4, 5 and 6) due to its high performance knowledge-based economy with a high GDP per capita (one of the highest in the world).

*Table no. 4. The Global Innovation Index 2013*

<b>Rank</b>	<b>Country</b>	<b>Score (0-100)</b>
1	Switzerland	66.59
2	Sweden	61.36
3	United Kingdom	61.25
4	Netherlands	61.14
5	United States of America	60.31
6	Finland	59.51
7	Hong Kong (China)	59.43
8	Singapore	59.41
9	Denmark	58.34
10	Ireland	57.91

*Source: (Dutta et al., 2013, p. xx)*

*Table no. 5. The Global Innovation Index 2014*

<b>Rank</b>	<b>Country</b>	<b>Score (0-100)</b>
1	Switzerland	64.78
2	United Kingdom	62.37
3	Sweden	62.29
4	Finland	60.67
5	Netherlands	60.59
6	United States of America	60.09
7	Singapore	59.24
8	Denmark	57.52
9	Luxembourg	56.86
10	Hong Kong (China)	56.82

*Source: (Dutta et al., 2014, p. xxiv)*

*Table no. 6. The Global Innovation Index 2015*

<b>Rank</b>	<b>Country</b>	<b>Score (0-100)</b>
1	Switzerland	68.30
2	United Kingdom	62.42
3	Sweden	62.40
4	Netherlands	61.58
5	United States of America	60.10
6	Finland	59.97
7	Singapore	59.36
8	Ireland	59.13
9	Luxembourg	59.02
10	Denmark	57.70

*Source: (Dutta et al., 2015, p. xxx)*

The period 2013-2015 was characterized by stability as there were the same countries ranked in the GII top. Also, it confirms the global dispersion of innovation and the persistent existence of a global innovation divide among countries. There is still a huge gap between high-income economies and the others.

## **Conclusions**

In the last decades there have been numerous debates about the importance of competitiveness and innovation all over the world. Innovation represents one of the cornerstones of competitiveness and requires improvements and investments in various domains such as higher education and R&D.

The Global Competitiveness Index and the Global Innovation Index are useful tools that measure the levels of competitiveness and innovation of countries.

Our paper has demonstrated that competitiveness and innovation are two interconnected concepts at a global level. In our view, the main pillar of global competitiveness is innovation. This is why great efforts should be made by any country to improve its innovative capacity in order to become highly competitive.

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## Living Labs and C2P Partnerships: A Participatory Solution or Just Another Buzz Concept for Regional and Local Development?

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### Abstract

*The paper presents the case of Living Labs, a systemic innovation approach with regional and “topical” reach, as a potential tool for regional and local development. The case of citizen-private—public (C2P) partnerships, also known as C3P, is presented conceptually, as an integrative, participatory possible solution for local issues, such as the fostering of a more innovative business ecosystem, or, to a much smaller scale, the user-centric improvement of local infrastructure. A mainly theoretical paper, as most research in the area of Living Labs is in the form of policy papers or case-study, the paper presents possible drivers for the creation of a Living Lab in Romania.*

**Key words:** living labs, regional development, innovation  
**J.E.L. classification:** D71, F63

### 1. Introduction

Regional development and innovation became in the past 10 years more than academic buzzwords and NGO-driven discourse. It has become a reality the fact that regions are more flexible than entire countries for introducing public policies for innovation, development and sustainability, they may act as pilot tests and create more tailor-made programs, in order to ensure a higher efficiency of actions.

Thus, any type of research that supports a higher level of engagement of stakeholders at regional level, a more integrated management of externalities (Bennett and Iossa, 2006, pp. 2143), becomes a solution for pushing the model forward. Living labs and citizen-public-private (C2P) partnerships, also known as C3P are becoming ways of engaging most of the stakeholders in this endeavor of growth.

### 2. Regional Development and the need for targeted innovation

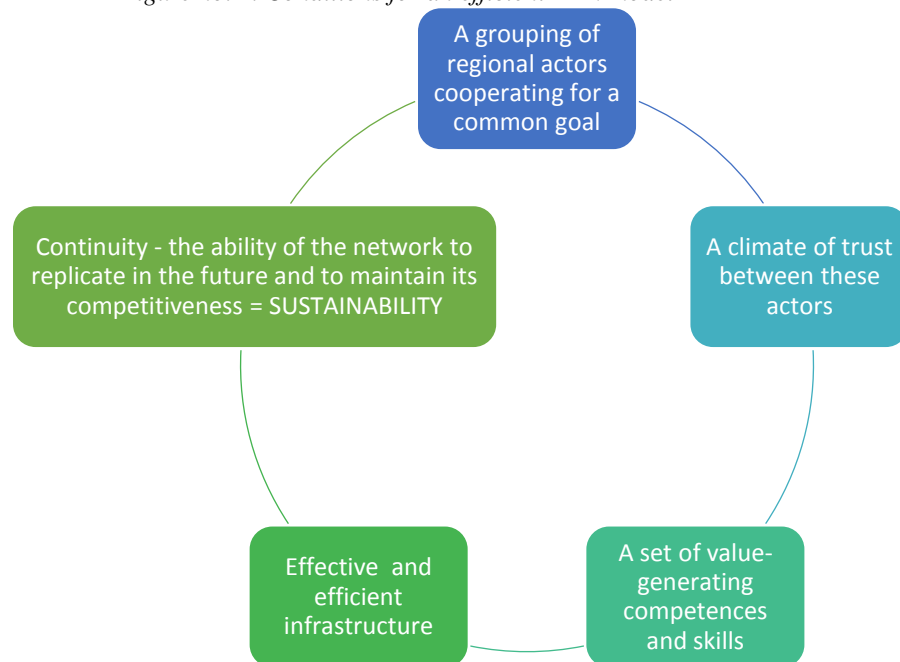
Considered in the Development Strategy of Romania in the next 20 years as an axiological norm (Zăman *et al* in Vlad (eds.), 2015, pp. 235), sustainable development is hampered by a number of negative trends among which an increase in regional disparities. If overall Romania is among the last countries in the European Union in terms of the impact of innovation, being considered a country rather efficiency-oriented than innovation-oriented, within the country there may be observed major disparities between the most developed region (Bucharest Ilfov) and the other „poor regions,, (Albu *et al* in Vlad (eds.), 2015, pp. 280). Therefore, the issue of regional development is evermore present, as the capital area cannot continuously be the driver to the entire economy, particularly in a very large country, such is the case of Romania.

In recent decades, however, from the general pattern of growth of Solow (proposed in 1956, refined in 2000) which speaks of exogenous factors in the literature on regional development, one can observe a tendency of concentrating on endogenous factors of growth. Regional development should be considered by the various stakeholders as both a process and a product (Blakely, 1994, p. 115), especially as it is difficult to reconcile the effects of development policies to the regional

processes that shape them (Stimson et al, 2006, pp. 4). This approach is hampered by the volatility of national and global business environment and the existence of national policies and strategies (and implicitly supra-regional) that may affect the aforementioned processes. Defined in Stimson *et al* (2006, pp. 6) as the application of business processes and available resources in a region resulting in its sustainable development and the achievement of the desired objectives, which respect the values and expectations of businesses, residents and visitors, regional development is considered as having a critical factor, namely competitiveness (Porter, 1990, pp. 84, Ohmae, 1995, pp.65). However, the theory of cumulative causation (Myrdal, 1957, p. 23, Krugman, 1997, p. 46) points out that this may lead to disparities, with processes that support the well-developed regions to further attract investors, funds, innovation, to the disadvantage of the less developed regions. The new theory of growth (de Groot *et al*, 2004, pp. 39) retains this concept of favorable or unfavorable processes, calling them self-consolidating processes of decline or increase.

Regional development is thus, nowadays, an important area of research, with academia and businesses, alongside policy makers, trying to identify the proper tools, processes maps and drivers in order to take the best decisions, foster the highest impact and target the most problem areas. One of the most talked about models is the regional business ecosystem model, which mainly draws a map of the way the region shapes itself in terms of businesses. Another tool for the analysis of the regional development, alongside the usual modelling of economic profiles of nations, adapted to regions, can be the BEN (*business enabling network*) model (Pikka, 2011, pp. 324), designed as a public policy decision-making model through 5 elements, as presented in the Figure below.

Figure no. 1. Conditions for an efficient BEN model



Source: (Pikka, 2011)

It is therefore extremely important to involve all stakeholders in this cycle of public policy decision making, as the common goal for all of them may be defined as the development of the region in which all of them function. One way in which these stakeholders may be involved is based on the idea of user-driven innovation, is a systemic innovation approach, bringing together citizens (as users of aforementioned innovation for regional development) with the public institutions and business environment, in an effort to leverage on the open source advantages. This allows for a more generous bank of knowledge, ideas and experiences, for an "out of the box" approach, coming from all actors involved and has been proven to boost innovative capabilities for companies and nations alike (see the use of open-source in ICT).



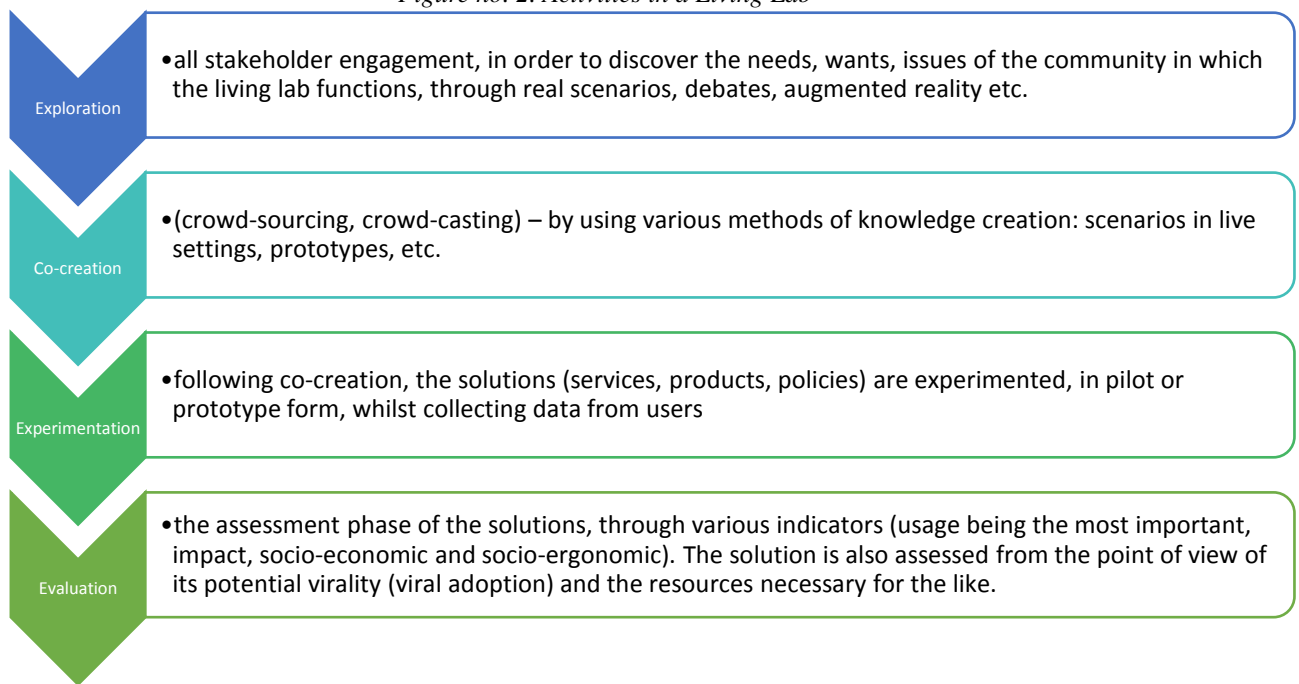
### 3. Living labs and C2P partnerships – basic concepts leading to impact in theory

Initially defined as a “user-centric research methodology for sensing, prototyping, validating and refining complex solutions in multiple and evolving real life contexts” (William Mitchell), a living lab is more a research **and development** methodology in which solutions (services or products) are “created and validated in collaborative multi-contextual empirical real-world environments” (Eriksson *et al*, 2005, pp. 5). Aimed at supporting stakeholders with less power, such as SMEs or individuals, LLs are a solution that has been rather unexplored and definitely under-theorised. Most of the articles, even academic, on the subject are either case studies or frameworks for the development of such a methodology.

Past research (Almirall and Walham, 2011, pp. 87) has shown that LLs function best at the lower levels of innovation, are mostly considered to be technologically agnostic, equally focused on exploration and exploitation and a suitable solution for the usage of context-based experience in order to reveal/surface new meanings for services and products, thus they become extremely context dependent. This context dependence leads to the suitability of the LLs for the regional and local reach, on topical subjects, such as the products, services and policies for the smart cities, creative industries, healthcare, intelligent energy.

The living lab allows the individual to directly participate in the creation of a product, service or even policy designed for his or her use, as citizen, user/consumer or even worker. Thus, the living lab has four main activities in its operations, as evidenced in Figure 2.

Figure no. 2. Activities in a Living Lab

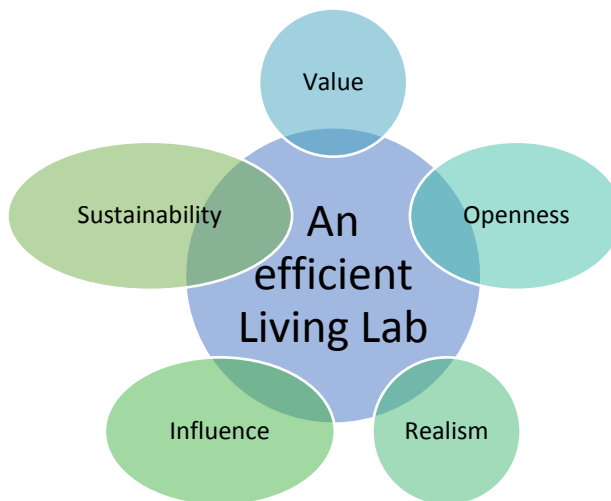


Source: (Schumacher, 2012)

A multi-faceted concept, the living lab may be the activity of monitoring “a living social system”, the approach to involve multiple stakeholders (including citizens/users/consumers) in the development of product, service or policy, the innovation system, the organization which facilitates the innovation system or lastly, the European Union initiative from 2006 (Mulder and Stappers, 2009, slide 2 and onward, Folstad, 2008, pp. 100). Apart from its last form (the EU movement), the Living lab must follow a series of principles in order to provide real value to its enablers, users and participants. These five principles are directly related to the challenges that the Living Labs face. The first major challenge is knowledge asymmetry (a main issue of all participative and democratic procedures): stakeholders have different background, different ways of understating the issues presented and different manners of communicating the solutions they propose (for instance, public bodies, particularly of an European member states, may exhibit more bureaucratic behaviors than

NGOs or citizens, etc). This is the main reason of the Openness principles, the Living Lab being required to a certain extent to have one or more facilitators, in order to ensure a hedging of the knowledge asymmetry. The second challenge is the ethical interaction amongst participants, all stakeholders involved taking place in the Living lab under no constraints, and under the principle of informed consent. That is the main reason for the realism and value principles, as no data collection from a large number of actors makes sense without a realistic value added to the community. A third challenge refers to the attractiveness of a like setting for users: why would they want to get involved in a Living Lab, and the answer to this conundrum may be the central goal of the grouping of actors, in the case presented in the paper, regional growth.

Figure no. 3. Principles for an efficient Living Lab operations



Source: (Ståhlbröst, 2012)

According to Leminen *et al* (2012, pp.3), there are four types of living labs: utilizer-driven, enabler-driven, provider-driven and user-driver. The characteristics of each of these are presented in Table 1.

Table no. 1. Types of Living Labs

Characteristic	Type of Living Labs			
	Utilizer-Driven	Enabler-Driven	Provider-Driven	User-Driven
Purpose	Strategic R&D activity with preset objectives	Strategy development through action	Operations development through increased knowledge	Problem solving by collaborative accomplishments
Organization	Network forms around an utilizer, who organizes action for rapid knowledge result	Network forms around a region (regional development) or a funded project (e.g. public funding)	Network forms around a provider organization (s)	Network initiated by users lack formal coordination mechanisms
Action	Utilizer guides information collection from the user and promotes knowledge	Information is collected and used together and knowledge is co-created in the network	Information is collected for immediate or postponed use; new knowledge is based on the information	Information is not collected formally and builds upon users interests; knowledge is

	creation that supports the achievement of preset goals.		that provider gets from the others	utilized in the network to help the user community
<i>Outcomes</i>	New knowledge for product and business development	Guided strategy change into a predicted direction	New knowledge supporting operations development	Solutions to users everyday life problems
<i>Lifespan</i>	Short	Short/Medium/Long	Short/Medium/Long	Long

Source: (Leminen et al, 2012)

From Table 1, it is easily noticeable that the Living Lab which is enabler-driven is more suitable for strategies related to regional development. In this case the enabler may be a public institution, a NGO, a municipality, a university or a regional organization, which has the declared objective to solve societal problems and/or provide community improvements. So far, based on research by Leminen *et al* (2012, pp. 4), this type of LL has seen minimal business environment involvement, as the clear cut value added for the companies is not easily communicated, even if knowledge creation is, as mentioned by the cited authors, longer-lasting than other types of living labs.

#### 4. Conclusions

Recent phenomena, Living Labs have been pushed as a research solution in the European Union by the creation in 2006 of Corelabs and Clocks, pilot projects meant to foster innovation systems within the EU based on this innovative approach. These pilot projects were followed in the same year by a pan-European network of 19 LLs (ENOLL), which nowadays (2016) comprises of more than 120 bodies, meant to tackle societal issue as well as competitiveness challenges within the Union. There is a continued need for more research on the subject, as development is most times hampered by communication issues, lack of political involvement (particularly in enabler-driven LLs), lack of user involvement (particularly in utilizer or provider-driven LLs). There is a clear need for a proper methodology for each of the LL types, as it exists solely for provider//utilizer driven (FormIT – with 3 theoretical streams: Soft Systems Thinking, Appreciative Inquiry, and Need Finding.)

Moreover, it is relevant to look into the potential of artificial communities, such as student campuses, as a potential, already in place, living lab, as students are early adopters of new technology, and have a higher sense of community involvement. That is the main reason for a framework to create a local living lab at Bucharest level (a university city, with a large academic community, and citizens used to participatory decision-making. This may very-well become the first enabler-driven LL in Romania, which only has listed in ENOLL a single (inactive as of May 2016) Living Lab, ARCHES. The success of a Bucharest LL remains to be seen and shall constitute another case study in the plethora of related research of the same type.

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## Regional Policy - Major Part in the European Union

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### Abstract

*European Union Member States and regions are not identical in terms of their level of development. Moreover, there are differences in the development level even within each country. Disparities among regions and countries are not only historical, but also natural. Unequal developments are obstacles to the integration process, the free movement of capital is impeded, which means reducing the possibility of eliminating existing differences. Therefore, regional policy primarily aims at reducing economic and social disparities among the different regions of Europe, starting from the heterogeneity of components.*

**Key words:** regional policy, regional disparities, economic and social cohesion, economic crisis.

**J.E.L. classification:** F15

### 1. Introduction

Regional policy has played a major part in the enlarged European Union, as proven by its outstanding achievements during previous years.

Strengthening the economic, social and territorial cohesion by reducing the development disparities among its regions and countries is a fundamental objective of the European Union.

Regional disparities widened in 2008-2013 because the economic crisis affected regions differently. Some regions were severely affected, others almost not at all. Although the European Union's regional policy is conceived as a long-term structural policy, it was necessary to adapt to radical changes in the economic environment and to adopt steps to address unpredicted challenges.

However, regional policy has led in recent years to creating millions of jobs, has led to building thousands of kilometers of strategic links in the fields of transport, energy and broadband, has invested in research and innovation, small businesses and entrepreneurship, has supported innovative projects in areas such as renewable energy and energy efficiency, protection of cultural heritage and natural areas of outstanding beauty, has stimulated economic growth in sparsely populated and outermost regions of the European Union (European Commission, General Directorate for Communication, 2014, *Regional Policy. Let Us Understand European Union Policies*, p.15).

### 2. EU Regional Policy in 2007-2013

Whereas for the period 2000-2006 regional policy was allocated a budget of 235 billion Euros, for the years 2007 to 2013, the amount rose considerably to 347 billion Euros (Niță, I., Ciochină, I., Dumitrescu, S., 2010, *European Construction – EU*, 4th Edition, Independența Economică Publisher, Pitești, p. 99), of which 25% was allocated to research and innovation, and 30 % to environmental infrastructure and steps to combat climate changes.

The community initiatives in 2000-2006 gave way to a new architecture (Table no. 1) that simplified the system.

Table no. 1

Regional Policy Architecture	
2007 - 2013	
Objectives	Financial instruments
Convergence	FEDR FSE FC
Competitiveness and employment	FEDR FSE
European territorial cooperation	FEDR

Source: <http://www.fonduri-structurale.ro/detaliu.aspx?eID=10115&t=fs2014-2020> [Accessed 7 January 2016]

The **convergence objective** has aimed at boosting growth and employment in less developed regions. It has put particular emphasis on innovation and knowledge society, on the adaptability to economic and social changes, and on the quality of environment and administrative efficiency. It has been funded by the European Regional Development Fund (FEDER) and the European Social Fund (FSE), along with the Cohesion Fund (FC).

The **regional competitiveness and employment objective** has covered all areas of the European Union which were not eligible for the convergence objective. It has been meant to contribute in strengthening the competitiveness and attractiveness of regions, as well as of employment by anticipating economic and social changes. It has been funded by the European Regional Development Fund (FEDER) and the European Social Fund (FSE).

The **European territorial cooperation objective** has aimed at strengthening cooperation at cross-border, transnational and inter-regional levels. It has acted as a complement to the other two objectives, as the eligible regions are the same as for the convergence or regional competitiveness and employment objectives. It has been funded by the European Regional Development Fund (FEDER). It has aimed at promoting joint solutions for the authorities of different countries in the fields of urban, rural and coastal development, development of economic relations, and interrelatedness of small and medium enterprises. The cooperation has been focused on research, development, information society, environment, risk prevention and integrated water management (<http://eufinantare.info/politica-coeziune.html>).

The financial resources have amounted to 347 billion Euros distributed as follows:

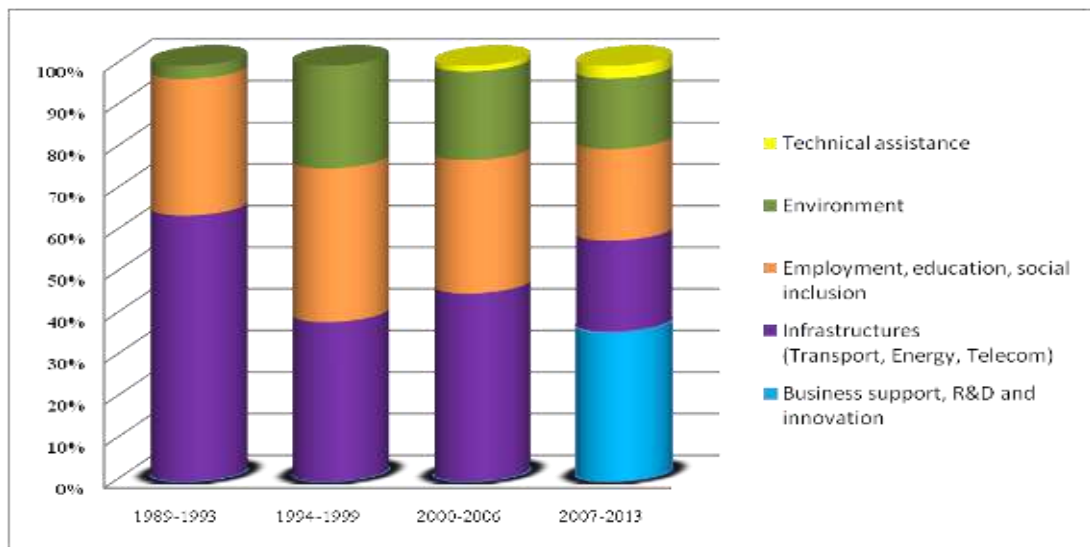
- 81,5% for the convergence objective;
- 16% for the regional competitiveness and employment objective;
- 2,5% for the European cross-border cooperation objective.

Most financial resources have been concentrated, just as today, on the poorest Member States and regions, focusing on the new Member States (Prisecaru, P. et al, 2004, *EU's common policies*, Economica Publisher, București, p. 108).

The European Commission has conducted annual indicative divisions by Member State, mainly based on the following criteria: *eligible population, regional and national prosperity, and the unemployment rate* (<http://eufinantare.info/politica-coeziune.html>).

After 1989, within the regional policy, there has been a shift of investment from infrastructure to support for SME's, innovation and social policies, and employment. This shift has been possible due to infrastructure development in Member States which used to receive support under this policy in previous periods. Along with the creation of the Cohesion Fund (FC) in the 1990's, environmental investments have become increasingly relevant, supporting Member States and regions in order to comply with the directives and regulations of the European Union in this area. Investments in the manufacturing sector and in particular SME's have remained relatively stable (Figure no. 1).

Figure no. 1. Composition of Cohesion Policy Investments in Less Developed Regions, 1989-2013



Source: European Commission (2014), *Investment for Employment and Growth. Promoting Development and Good Governance in EU Regions and Cities*, 6th Report of Economic, Social and Territorial Cohesion, p. xix, Available at: [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/reports/cohesion6/light\\_6cr\\_ro.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion6/light_6cr_ro.pdf) [Accessed 7 January 2016]

### 3. Positive Outcomes of Regional Policy

Regional policy had **positive outcomes**, namely between 2007 and 2013 it helped the EU countries ([http://europa.eu/pol/reg/index\\_ro.htm](http://europa.eu/pol/reg/index_ro.htm)):

- create 769,000 jobs;
- invest in 225,000 small enterprises;
- finance 72,000 research projects;
- provide broadband coverage for another 5 million citizens of the European Union;
- improve the quality of life in cities through 11,000 different projects;
- build 1,208 km of roads and 1,495 km of railways to facilitate the creation of an efficient trans-European transport network;
- improve the quality of life of citizens in urban areas through sustainable transport and modern water supply systems, benefiting 3.2 million citizens (European Commission, General Directorate for Communication, 2014, *Regional Policy. Let Us Understand European Union Policies*, p. 4).

Regional policy aims at reducing the difference among the development levels of various regions, and along with the integration of ten countries in 2004, then of Bulgaria and Romania in 2007, and Croatia in 2013, this effort has had to be reinforced. When Romania and Bulgaria joined the European Union in 2007, they were the least developed countries in the Union, with a GDP per capita below 40% of the EU average and an infrastructure far below the rest of the European Union. In 2013, Croatia joined the European Union with a GDP per capita of 61% of the EU average and an unemployment rate of 16%, much higher than the average of 10% (European Commission, 2014, *Investment for Jobs and Growth. Promoting Development and Good Governance in EU Regions and Cities*, 6th Report of Economic, Social and Territorial Cohesion, p. 196).

In the end of the programming period, the European Union was very different from the one in early period, in 2007. At the time, the European Union enjoyed sustained economic growth. Income levels would increase, as well as employment and public investment rates, poverty and social exclusion would tend to decline, and regional disparities would mitigate. However, despite positive trends, numerous types of disparities among regions have continued to exist. The crisis has changed all that. Since 2008, public debt has increased significantly, the incomes of many citizens



in the European Union have fallen, employment rates have decreased in most countries, unemployment has reached its highest level in the last 20 years, while poverty and social exclusion have become widespread. Moreover, regional disparities in employment and unemployment rates have widened, as well as related to the GDP per capita, which have increased in many countries, while in others they have ceased to be reduced ([http://ec.europa.eu/regional\\_policy/ro/information/publications/reports/2014/6th-report-on-economic-social-and-territorial-cohesion](http://ec.europa.eu/regional_policy/ro/information/publications/reports/2014/6th-report-on-economic-social-and-territorial-cohesion)).

*“The crisis has hit a Union that is in full construction, a Union with many hotspots”* ( Radu, L., 2012, *The economic crisis in the European Union. A communicational perspective*, Comunicare.ro Publisher, București, p. 51).

At the level of the entire European Union, public investment has fallen by 20% in real terms between 2008 and 2013. Without regional policy, investments in the Member States most affected by the crisis would have declined by another 50%. In these countries, the cohesion funds mean over 60% of the investment budget.

*“The economic crisis has reversed a long-term trend marked by the convergence of the GDP and unemployment rate in the EU, particularly affecting the regions of southern Europe. The crisis has also led to increased poverty and social exclusion, which has made it difficult to achieve several objectives of the Europe 2020 Strategy”* (European Commission, 2014, *Investment for jobs and growth. Promoting development and good governance in EU regions and cities*, Sixth Report on economic, social and territorial cohesion, Brussels, p. 11).

In this context, this policy has contributed in numerous achievements that have allowed the improvement of EU economies’ structures, also promoting an inclusive and sustainable development model throughout the European Union. Assessing the impact of regional policy is not an easy task.

Even if assessing indicates that regional policy has allowed obtaining good results, there is room for improvement, too.

They are largely the objectives that have motivated the reform applied to programmes in the period 2014-2020.

In the funding period 2014-2020, the fifth of its kind since 1989, the European Union with its Member States develop investment strategies designed to ensure that every Euro spent will have maximum multiplying effects throughout the Union (European Commission, General Directorate for Communication, 2014, *Regional Policy. Let Us Understand European Union Policies*, p.15).

The funds allocated to regional policy for the period 2014-2020 amount to 351.8 billion Euros - about a third of the total European Union budget.

The overall impact of these funds, if one also takes into account Member States’ national contribution, along with the leverage of financial instruments, is likely to reach about 500 billion Euros. Regional policy has become the main investment policy of the EU and is closely aligned with the objectives of the Europe 2020 Strategy.

Most of the funds available to regional policy are oriented to European countries and regions that are lagging behind, in order to support them so that to recover and reduce the economic, social and territorial gaps still existing in the European Union. Thus, in 2014-2020, the less developed regions will receive more than 182 billion Euros (European Commission, 2014, *Introduction to EU cohesion policy 2014-2020*, p. 7), whereas the transition regions will be able to access funds of 35.4 billion Euros, and more developed regions - 54.3 billion Euros (European Commission, General Directorate for Communication, 2014, *Regional Policy. Let Us Understand European Union Policies*, p.3).

#### **4. Conclusions**

Regional policy addresses all regions and cities in the European Union, supporting job creation, enterprise competitiveness, economic growth, sustainable development and improved quality of life.

Regional policy significantly contributes in the growth of the GDP and employment, especially in Member States benefiting from the most important financial support (European Commission,

2014, *Investment for Jobs and Growth. Promoting Development and Good Governance in EU Regions and Cities*, 6th Report of Economic, Social and Territorial Cohesion, p. 234).

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**Section III**  
**Economic and Social Studies**

## Factors That Influence Aging In Romania

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### Abstract

*The concern about aging in Romania is generated by recording its aging trend, reflected by the continuous increase in numbers compared to other segments of the population and the impact this has on their vulnerable category. The last few decades are marked by a continuous and significant population decline due alarming deterioration of population dynamics of three components: births, deaths and migration. The current demographic picture of the country reveals that the number of pensioners tends to exceed half of the population, the number of adults and children decreased statistically and significantly narrows its pyramid base. These are essential elements that require effective social policies including demographic ones.*

**Key words:** population, natality, mortality, external migration

**J.E.L. classification:** R23

### 1. Introduction

By particularly complex impact, population issue is an important topic, both for statistics and for various institutions, because today, more than population trends, through factors and impact, represents a major national risk.

Population aging is a global phenomenon. European Commission Projections and other specialized organizations report a low fertility rate, with alarmingly decreasing trend, especially in Eastern Europe, as a result of economic and political change. Romania is no exception to this decline, the last few decades marked by a continuous and significant population decline caused by the alarming deterioration of the three components of population dynamics: birth rate, mortality and external migration.

Factors such as increasing life expectancy, decreasing long-term birth and significant external migration prompted changes in the mean age of the population and led to the emergence of new complex issues that must be addressed in a broader context, such as an aging population and development of medical services for the very old, a new approach to the social security system, employment and better jobs for parents, solutions to encourage temporary migration and not the final, are just some of the measures authorities can take to adapt and overcome the state of risk (Cruceru *et al.*, 2013).

The current demographic picture of the country reveals that the number of pensioners tends to exceed half of the population, the number of adults and children decreased statistically and significantly narrows its pyramid base. These are essential elements that require effective social policies including demographical ones.

### 2. Factors influencing the number and structure of population

Currently the factors influencing changes in the number and population structure are separated by the type of manifestation in two categories: factors that act globally, especially in all EU

countries and factors specific to certain countries, in this case, specifically Romania. Both cover the same structural components of factors: birth rate, mortality and migration.

Regarding the first category of factors which are relevant nationally we remember the conclusion of various studies, and even specific reports of the European Commission, FNNAP, etc., which states: "*The EU no longer has a demographic motor*", one survey is showing us that the difference between the number of wanted children and that existing in reality fell from 3.3 to 1.5. The main directions that need to be addressed with priority are: returning to demographic growth, through the firm implementation of the Lisbon agenda (modernization and older works), innovative measures to stimulate the birth rate increase and corresponding benefits of immigration; ensuring a fair balance between generations through involvement in social life of the society members throughout life and the distribution of benefits and financing needs arising from pension and health expenditures; also finding new bridges between the various stages of life, given that an increasing number of "*young retirees*" want to participate in social and economic life, while young people want to spend more time with their children. On the other hand, training requires a longer period of study, and these changes affect the boundaries and links between work and inactivity (Cruceru *et al.*, 2013).

Regarding specificity factors acting in Romania, we refer briefly to the changing age structure and the causes of aging.

### ***Changing in age structure***

Analyzing towards the phenomenon, including the official statistical data, there is, unequivocally, that the age structure of the population of Romania reflects a process acutely, by continuously aging population, mainly driven by declining birth rates, which has reduced absolutely and relatively the young population (0-14 years), and the increase of the elderly population of 65 years and over. Furthermore, we identify not only the decrease in the number of population, which is worrying, but also, especially, the fact that the development is associated with the continuous decline of the age structure, the following is a brief explanation:

- data clearly demonstrates the continued and significant reduction of the young population (22.7%, 15.2% and so on), growth as continuous of the elderly population (65 years and over: 11% (1992) 14.9% (2008), etc. (I.N.S., 2015, p.205).
- in a structural approach, the elderly should not be regarded as a homogenous entity. It includes the subgroup of elderly "*younger*" (65-77 years) and elderly subgroup "*older*" (75 and over). The trend in the comparative evolution of the two subgroups mentioned reflect numeric that the first is faster to second. Substantial increase in the elderly population, 60% is group 65-77 years and "*long-lived*" 80 years and over, representing over 3% of the population (Popa, 2012, p.2);
- the aging population differs by gender, while in rural areas is more pronounced than in the urban;
- aging pyramid, allowing radiography at different times, of the 18 five-year age classes of the population, highlights the warning signs of demographic trends, including the aging process - thickening the tip and narrowing the pyramid base (www.insse.ro).

The index of demographic aging and age-dependency ratio were and are strongly and directly influenced, primarily, by the decrease in the number of children and the increasing elderly population: aging index has increased from about 48 elderly people per 100 young people from nearly 98 today; dropping demographic dependency ratio over the same period from about 51 to about 42 (www.recensamantromania.ro). Moreover, like most European countries, Romania is facing economic and social consequences, aggravated by the slow but continuous, demographic aging, which in less than two decades, to the extent that under present conditions, will lead every 5th inhabitant of Romania into the category of the elderly.

### **3. The causes of aging population in Romania**

Demographic aging is a complex statistical phenomenon which consists of changing the population structure on large age groups, on account of the young population reduction. The increase in the absolute number of elderly people, however large it may be, it is a component,

accompanied also by similar increases among the young and adult, and so, it may not affect changing in the age structure, and therefore should not be considered as approved an aging process. Ageing is not a disease - a truth universally acknowledged, is a biological process, which individually is irreversible, but in society we can talk about a process that can be slowed down, never stopped by transparent policies and specific measures based on statistical data.

Lately, the birth rate recorded a very slight improvement compared with mortality and migration, and the current economic and social realities demonstrate that they have contributed to the downturn in birthrate by: lower living standards, unemployment, uncertainty of employment, stress, changes in attitudes and behavior on marriage, cohabitation, divorce, children out of wedlock, children increase at girls under 15 years old (www.insse.ro).

Damaging age structure, in the detriment of young people, with impact on reducing fertility helps to reduce the birth rate and raises the issue of the demographic future of the country. The quality and the cost of health care (prenatal and postnatal), access to health services, growing conditions and education of children are other factors that influence the evolution of decreasing birth rates.

It is known that when the standard of living, quality of care and access to health services know sensitive improvements, reducing mortality by age, increased life expectancy also have different developments. The evolution of the average lifespan is conditional upon a number of factors, of particular importance to the life, health, nutrition, sanitation and education levels, but also the economic and social conditions from the society (Phillipe, et. al., 2009, p.37).

Also, programs for raising awareness for practicing healthy lives - with affordable access to information on ensuring good nutrition, should contribute to increasing life expectancy, the largest contribution to the increase in life expectancy at birth with a reduction in mortality at younger ages.

External migration (the concept of international mobility is a third factor contributing to the changing age structure of the population of Romania, even the aging population phenomenon. At first glance it is normal to one point, to consider that international mobility predominantly depends on the economic and social force of the "attraction - rejection" mechanism of the ratio donor – "recipient" of the population.

#### **4. Conclusions**

Romania's population presents an alarming trend of aging – the third age population, continuously increasing numerically is a vulnerable, with an impact to other segments of the population. Lonely elderly people are most dependent on public aid, the family's role should not be overlooked - and again the desire to live separately, the marked reduction of elderly care potential.

Some "argue" that the rate of decrease dependency among children, caused by the alarming decline in fertility will free resources to cover the needs of the population aging. Mechanical reallocation of sources from children to the elderly is not a solution, the active solution in the short term is the development and especially the implementation of rigorous tests that include components of financial, health and social assistance, education, employment, cultural life after retirement, etc., and do not forget that Nicolae Iorga said: "the happiest people are those who were able to retain as much of their elders", thus emphasizing the importance of the elderly in the solidity of a nation.

The demographic aging that Romania, and not only, faces, is an objective phenomenon, held independent of one's will. . If this process cannot be stopped but it is not mitigated by circumstances, requires active measures, timely, economic, social, health, educational, including legislative.

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## Reflections on the Economic Prospects

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### Abstract

*This article emphasizes the fact that we are living exceptional times, because some data regarding the global economy puzzle us. A question arises more and more amidst analysts, business environment and leaders of national economies or economic entities: 2016 is the beginning of a new economic and financial crisis? More and more voices reply that a new crisis is likely to happen. These voices are frequent in Europe, also in the USA, while in China some phenomena signal a new crisis. Other voices claim this is only turbulence and we cannot speak (yet) about a global crisis, and turbulence is the new normality. From another perspective, they see it as a prolongation of the 2007-2008 crisis. Others claim it is a prolonged recession.*

**Key words:** raw materials cycle, turbulences, social inequality, poverty, recession risk  
**J.E.L. classification:** A10

### 1. Introduction

It's been a few years since we started wondering how a global crisis was possible and it fundamentally changed economic theories. We still have guesses at who and/or what caused the financial and economic collapse. We refuse to blame each of us, because of an absurd race of consumerism and prosperity on loans! Basically, human society, at the beginning of the 3<sup>rd</sup> millennium, behaved like in an eschatological scenario (apocalyptic): now or never! By adding up small errors, we generated apocalyptic process in economy. What is worse, 8 years after the beginning of the crisis, we show no sign that we have learned something. The United States are stuck in the decision to print money endlessly to stimulate consumption, while Europeans are focused on strategies that lead to bankruptcy as these strategies capitalize banks (private!) to stimulate loans to individuals and companies (the same consumption!). When you have knowledge of economic history, you notice dangerous similarities with the events in Europe between 1925-1940. Pundits who draw attention upon the likelihood of a new strong crisis are mocked at. In 2012, professor Bilge Erten from Columbia University (USA), was warning that within 3-4 years the raw material prices would fall as a result of the global consumption. This would lead to the fall of the minerals oil and gas exporting countries. Professor Bilge Erten proved that, during the last century, there have been 3 full super cycles of 30-40 years each, the first reaching its maximum in 1917, the second in 1951 and the last in 1973. Erten claims that we are currently in the middle of the fourth super-cycle that started at the beginning of this century, driven especially by China. „It is not clear how long this super-cycle will last. We have discovered that super-cycles last between 15 - 20 years of expansion. Since 2000, we have had about 10 years expansion, so we still have five“, explained Erten. This theory is based also on China's declining growth rate.

The volatility of the raw materials markets had catastrophic effects upon economies in the past. During the crisis of the '80s, countries in South America and Africa faced financial, social and political instability as a result of their development on raw materials. Economists describe this model in which prices hike for several decades, then plunge, as a super-cycle of the raw materials.

Signs regarding the decline of the GDP and economic activity are more and more visible: China no longer has for whom to produce. Markets are saturated or blocked. The price of the oil dramatically plunged and its trend is no longer foreseeable. Oil and gas industry has debts of more than 3,000 billion USD. The raw materials quotations declined with 2/3. China's economic growth



is slowing down, Russia and Brazil get worse. South Africa is flirting with recession. Economic growth engines in the US and Europe start squeaking. Growth paces of big economies are reconsidered as having a downward trend.

Pessimistic statistical data do not scare Marcelo Giugale, director for economic policies in the World Bank. He claims that loss in countries that lived well on raw materials exports will mean gain for developing countries that will be able to raise their life standards with small costs. In accounting terms, this is the new „tsunami” on investment markets.

For a few decades, there has been less gain in productivity in the US and other economies, which made Robert Gordon (Gordon, 2016), Lawrence Henry (“Larry”) Summers and others to suggest the beginning of a new period of “secular stagnation”, a concept used by Alvin Hansen in 1938 (Taylor, 2013). This hypothesis looks strange if we associate it to the discussions regarding “The fourth industrial revolution” (see the Forum in Davos), but it makes sense if we think that the new technologies, at least in the first stage, seem to eliminate rather than create jobs. Let us not forget J. M. Keynes’ forecasting that in 2030, due to scientific and technical progress, transposed into productivity growth, only workaholic people will work more than 15 hours per week.

## **2. Methodology of research**

We started from the assumption that research is a systematic process of collecting and analysing information (findings) to improve our understanding of an aspect. To achieve our goal, we have used a mixed research methodology, typical of social sciences, that consists in reading the specialized bibliography, articles and studies on this topic. We have tried to comply with the principle of unity between quantity and quality, between theory and empirical, between ascertaining and evaluative judgments. We relied on the following methods: analysis, synthesis, comparison, deduction and induction.

## **3. Are we approaching the storm?**

During the most important event at the beginning of each year, traditionally taking place in Davos, this year’s debates no longer covered 1-2 major issues, but a long list of potential problems that may become a very dangerous puzzle.

The fiercest seemed George Soros, who claimed that China’s economy would have a tough landing, which would worsen the global deflationist trend, and pull down the equity quotations and increased the governmental bond prices in the US. „A tough landing is inevitable. I am not expecting it, I am witnessing it“, told Bloomberg Soros, the man who has built a wealth exceeding 20 billion USD out of speculations on financial markets. Over the time, through his bets, Soros managed to defeat the British pound at the beginning of the ‘90s, and did the same with the Thai currency later in the ‘90s. Keeping that in mind, the Chinese took action, warning Soros, through an opinion published by a governmental official in a local paper, not to try to pull down the Chinese currency because he „undoubtedly stands no chance”.

In this context, the (apparent) optimism of the participants in Davos seems the least suspect, taking into account the wide range of issues on the agenda: Chinese economy decline, financial markets plunge, refugees’ crisis in Europe or the EU division.

Maybe the best summary of the current global situation was presented by Thomas L. Friedman, in an opinion published in New York Times: „Just get me talking about the world today and I can pretty well ruin any dinner party. I don’t mean to, but I find it hard not to look around and wonder whether the recent turmoil in international markets isn’t just the product of tremors but rather of seismic shifts in the foundational pillars of the global system, with highly unpredictable consequences” (Friedman, 2016). Practically, the American author who also wrote the bestseller „The World Is Flat: A Brief History of the Twenty-First Century”, an essay on the topic of globalization published more than a decade ago, considers that the current time is likely to be the simultaneous end of several epochs.

Year 2016 may bring conditions for a new unfavourable time that we may call crisis. Accepting the idea of a cyclic approach, we can consider this period of time as transitory, lasting as long as

the unfavourable conditions (above mentioned) last, and hoping that, when these conditions disappear, economy will get re-launched, according to the principle: „crisis comes, goes, returns...etc., etc., etc.”.

There is another approach that we should not underestimate, according to which we cannot speak of a „cyclic crisis”, but of a „decadence” (as decline, regress) of the global economy generated by depletion of the current model of economic development to make efficient the production factors (labour, natural resource, capital). It is a generalized, long term state that can be attenuated only by changing the current development model. ”The foundation of economy on progress has reached its limits. Pluriform current economic crises are increasingly clear signs of the lagoon. The working hypothesis is that successful open economy managed to deny the idea of science of wealth and to recharge with other contents the ideas of competition and economic growth” (Barbu, 2015).

A recent book by Robert J. Gordon, „The Rise and Fall of American Growth” (Gordon, 2016), bestseller, shows how we can explain the beginning of decadence of an economy, also clarifying that in the long run, global economy will suffer gradual decline. The crisis, in its cyclic sense, will become a permanent phenomenon with various amplitudes from one economic area to another. It is a terrifying theory, but omnipresent across the global economy. It denies the possibility of return, on long term, to the growth rates of the years 2000-2005. What are the arguments of this theory?

An argument is the prolonged trend of degradation of the global productivity index of the production factors, explained through the declining trend of the technical progress potential to make efficient use of the production factors. A French author who also embraces this theory, Patrick Artus, famous chief economist of Natixis, professor and co-author of ”La folie des banques centrales” (Artus and Virard, 2016), shows that „smartphone or the ipad have dramatically changed our life style, but have not influenced, statistically, the global productivity index”. The conclusion is clear in the analyses of the „decadence” supporters: the third industrial revolution has had little effect upon global productivity compared with the 1<sup>st</sup> and 2<sup>nd</sup> phases of the industrial revolution. This may block the economic growth of countries such as Germany, France, Italy, US or UK to 0% for the future 20-25 years.

Another argument is the perverse effects that the prolonged process of indebtedness reduction has upon economic growth. Before 2000-2005, banks granted oversized amount of loans for investments which led to real estate bubbles, stock exchange bubbles and financial bubbles. Inevitably, they exploded, causing the subprime moment. Hence, the need of a process to cut the indebtedness which is prolonged and considerably diminishes the investment potential. Analysts also prove with historical references (1929-1933), claiming that during the prolonged stages of indebtedness reduction, economic stagnation is impossible to avoid.

Another argument is the long-time „vital need” to invest in environment and climate global policies. These are considered to be vital investments for mankind, but not efficient on short term. Effects appear in time, can create jobs, but reduce and even limit the real economic growth, increasing the descending trend. The issues discussed during COP21 (COP - Conference of Parties; COP21 - also known as the 2015 Paris Climate Conference) are seen as ultimate arguments.

To emphasize however that ”Until recently, each snapshot of the global economy could be analysed in terms of winners and losers, easily to identify geographically: countries, groups of countries, regions, continents. For the first time, geography seems helpless – everybody is in the same situation: economies limp, money is rather a burden than the fuel... Geography becomes irrelevant or unimportant when it comes to drawing a map of the global economy” (Davidescu, 2016, pp. 30-31).

#### **4. Inequalities and poverty. Illusionary solutions**

The progress of global economy during the last half century, the economic and financial crises, regional and global crises, the accelerated globalization process and the dynamic development of national civil societies and their global coagulation under the impact of the development of social networks cause a reconsideration of strategies, policies and tools to curb poverty. New theories, concepts and tools have been integrated into the approach of the poverty issue, in order to increase efficacy in implementing global strategies and policies to curb poverty. Although developed and

known for several decades, concepts such as social and financial exclusion and inclusion, as well as the impact of deepening inequalities in the distribution of incomes upon poverty created, in time, packages of policies and tools to curb poverty.

The understanding of the concepts of global strategies to curb poverty requires placing the fight against poverty in the context of dramatic statistical surveys made by the main global stakeholders such as the OXFAM (Oxford Committee for Famine Relief), the EU, OCDE, IMF-WB, UN, UNDP, FAO, WHO:

- almost half of the world's population – over 3 billion inhabitants – live on less than 2.5 USD per day, and almost 80% of the population lives on less than 10 USD per day;
- there are over 500 million family farms in the world, that ensure food for more than 2.5 billion people who live on less than 2 USD per day;
- more than 1.3 billion inhabitants of our planet live in extreme or absolute poverty characterized by lack of bare necessities;
- 1 billion children live in poverty; according to UNICEF, every day 22,000 children die of poverty and hunger;
- 805 million people suffer from chronic hunger and malnutrition;
- over 750 million people have no access to drinkable water, according to minimal sanitary standards; diseases caused by daily use of bad water and lack of hygiene result into death of 2,300 people daily, which means 840,000 people per year;
- 165 million under 5 years old have been affected in 2011 by malnutrition chronic diseases with impact upon the development of their bodies;
- curable diseases, such as pneumonia or diarrhoea, cause death of 2 million children every year, as the living standard of their families does not allow proper treatment;
- almost 25% of the inhabitants of the planet (about 1.6 billion) live without electricity;
- estimations made by international NOGs all over show that in order to eradicate poverty in the world, 60 billion USD are needed every year, that means the annual income of the first 100 billionaires of the world;
- according to World Food Programme, the poor of the world suffer from hunger, and this is one characteristic of the „hunger trap”; chronic hunger is the main cause that lead to the death of so many people that exceeds the number of deaths caused by AIDS, malaria and tuberculosis.

In parallel with the invigoration of the efficacy of anti-poverty strategies by including the concepts of financial inclusion, with results that are visible during the last decade, a new strategic approach opens, that may become a complex concept to tackle the issue: combination of elements of social and financial inclusion with reduced inequality resulted from income distribution. The new topic that attracted attention during the last 2-3 years and became global is connected to the permanent and excessive growth of inequality in income distribution, quicker than the pace to reduce poverty. A deteriorated situation in this respect leads, according to OXFAM forecast, cited by the chief of the IMF, Christine Lagarde, to annual growth of the wealth owned by 1% of the world's population (billionaires 'group) who, in 2016, will exceed the cumulated wealth of the 99% of the rest of the population. In 2014, for the first time, the IMF statistically proved the negative impact of the increased income inequalities upon economies. A 1% increase of the income of the 1% of the world's population – billionaires – leads to 0.08% reduction of the global GDP. The explanation is the fact that the richest spend less than they earn, compared to the rest of 99% of the world's population, which diminishes the aggregated demand, thus affecting negatively the economic growth. This is a change in IMF's attitude toward the deepening inequality in the income distribution and the negative impact of this process upon economic growth and fight against poverty.

The studies on the fiscal heavens done by international NOG alliances show that the 1% – billionaires – hid huge wealth estimated to about 18.5 trillion USD, not taxed and withdrawn from the economic circuit. A major actor of contemporary world, G20, started since 2013-2014 to consider the conceiving of strategies to curb deepening income inequalities as one of the main threats to inclusive economic growth, financial inclusion and curbing poverty.

The topics connected to the deepening of inequalities have been constantly tackled by the Economic Forum in Davos in the last 3 years. This year, in Davos, OXFAM's report entitled „Economy for 1%” warns that inequality in the world has escaped control and the fight to curb

poverty is questioned due to huge imbalances such as deepened inequality. The first 62 billionaires had in 2015 the same wealth like half of the poor world's population of 3.6 billion people. The wealth of these 62 billionaires has increased with 45% since 2010, which represents a cumulated growth of 542 billion USD, reaching 1.76 trillion USD.

During the same time, the wealth owned by half of the poor world's population decreased with more than 1 trillion USD, meaning a 38% reduction. Global inequality, on the rise, says OXFAM report, jeopardizes the positive results obtained in curbing poverty during the last decade. Global NGO alliances, requested international community to conceive and propose urgent measures to limit potential negative effects on the favourable process initiated within the extensive program of financial inclusion launched by the WB for the 2 billion people who are financially excluded, „Universal Financial Access”. By 2020, we are expecting an accelerated coordination among the main stakeholders of the process of curbing poverty: OCDE, IMF, WB Group, EU. OCDE is the stakeholder with the strongest financial impact, giving a strong anti-poverty character to the funds invested in economic growth, in coordination with the other stakeholders. The WB Group will be the main drive of financial inclusion, assumed almost entirely by 2020, the end of completion of the program entitled „Universal Financial Access”.

Historically, poverty has always affected mankind. After „Das Kapital” written by Karl Marx, economist and philosopher, followed by „Progress and Poverty” by Henry George, sociologist and economist, „The General Theory of Employment, Interest and Money” by John Maynard Keynes who loved tight deadlines, „Capital in the Twenty-First Century”, by the French professor Thomas Piketty brings new contribution to the fight against unequal distribution of wealth, income inequality and poverty. While Marx gave the „final solution” – socialization of property – so that the proletariat could enjoy the integral product of labour, Henry George found (the value of) land to be the most appropriate object of a inequality-repairing fiscal design: since land could not be created or destroyed, fiscalizing the land would not affect social wealth or the production incentive. On the contrary, putting tax only on land to fund the public expenses would release labour and capital toward value-added uses, „unjust” people's enriching would be eased down, capitalism would be saved and democracy safeguarded. While Keynes preferred the perpetual inflation to assist „occupation” (not necessarily productive) as a mark of social equity, budgetary-fiscal modelled inflation, depending on the stages of economic cycle, to stir up or to calm down the economic dynamics, Piketty get inspired again by Henry George's knowledge, „modernizes it” and orients the fiscal „harpoon” to what escaped control and is no longer only maintenance land fiscalization: „rents”. Piketty uses the extended meaning of the idea of rent, defined as income disconnected from productivity, and finds solution in a possible progressive global tax on wealth, „penalising” the cheeky wealth, inherited or multiplied by inertia, thus resulting into a more equal, more productive society, purified by parasite rent extractors which would make outdated all inter-nation protectionist actions.

Irrespective of the original or re-arranged theories, it is certain that a poor man can be helped in two ways: by giving him either what remains or what sustains. The difference between alimony given from what exceeds and aid given to facilitate self-support is seen in the type of incentives and support we produce in a community, but the difference becomes more sensitive when the „curbing of poverty” is requisitioned by the state: creation of a right of the poor over the rich who is not guilty of the poor's becoming poor challenges the concept hypocritically invoked: social solidarity.

The problem of poverty is at the same time individual and communitarian, national and global, and the assorted solution divided the tools between voluntary and voluntary. Once in the landscape, the state risks working clumsily, beyond the left-wing approach which is natural, thus undermining its chance of sustainable solutions. Forced transfers of resources, namely, via fiscal means, from the rich to the needy, or for their social inclusion risks altering morals along the entire route: at the „source” (lack of interests for private efforts), and at the „flowing into”, namely the hand, and especially along the route, where fierce rent extractors are watching. The legislative packages of „minimal” salaries and „decent” pensions cannot produce more than cynical social tranquilizers, and a hungry person may feel as if has eaten only by reading them. Also, multiple monetary and banking manipulations create only boom-bust spasm and social deprivation..

## 5. Conclusions

”Signs of an economic crisis, at least as brutal as the first one in 2016, are sure... There is a set of circumstances not met before, which make analogies impossible, and any prognosis unsure. It is not clear yet if we can speak of a traditional reduction of the engine speed or on the contrary of a more efficient gear” (Davidescu, 2016, pp. 30-31).

Irrespective of the interpretation of the trend seen by the engine- economies in Europe, US or China, we are witnessing phenomena that may lead to a new potential global crisis.

The crisis may be cyclic, or any kind, but it will definitely appear in the second half of 2016. Ordinary people will not care about the explanation, but they will definitely be affected by the consequences of the crisis. Political decision-takers should pay attention to explanations as it is the only way for them to understand what to do.

Discussions about pauperization and social polarization are more than ever of the agenda of the „civilized world” which watches, worried, these phenomena. What makes in these years, port- (but also ante-?) crisis capitals and capital cities i of the world to be so alert about aspects regarding curbing extreme poverty and flagrant inequality: native empathy or instinctual fear toward the hungry and thirsty?

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## Mastering the Content- The Challenges of an Academic Course Design

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### Abstract

*Our purpose in the present paper is to discuss the importance of an adequate academic course planning not only in terms of content, but also in terms of application learning- such as problem solving, thinking and decision making. Another aspect we take into consideration is the fact that information processing is different from one individual to another, it can be divided into global and sequential.*

*There should be high academic standards for all students, but to expect everyone, regardless of their ability (and disability) to meet those standards simultaneously, is inadequate and inherently unfair. Just as they learn differently, students test differently. In order to respect these social, emotional and cognitive differences, instruction needs to be differentiated, apart from being relevant in terms of content.*

**Key words:** learning styles, course design, content organization, cognitive skills

**J.E.L. classification:** A2

### 1. Introduction

This paper has been written in response to a widespread problem that we noticed in much of present academic teaching- most professors today do not seem to have learning goals that go much beyond an understand-and-remember type of learning. Aspects of application learning-such as problem solving, thinking, and decision making are most often neglected. Consequently, sitting in many courses gives the impression of assisting to an information dump. The information and ideas on a given topic have been collected and are dumped onto the heads of the listeners.

### 2. Effective Learning Environments

In our opinion, the most effective learning environments are those which are problem based and which create the premises of four distinctive phases of learning, according to Merrill's „ First Principles of Instruction” (2002):

- Activation of prior experience
- Demonstration of skills
- Application of skills
- Integration of these skills into real-world activities (Merril, 2002)

We all agree that many hours of practice are required for practical skills involved in music or sports, however, when it comes to cognitive skills, such practice is in most cases the single most neglected aspect of training. Therefore, when translating the above mentioned ideas into instructional design, we should be aware about the fact that learning is achieved only when:

- Learners are engaged in solving real-world problems.

- Existing knowledge is activated as a foundation for new knowledge.
- New knowledge is demonstrated to the learner.
- It is applied by the learner.
- It is integrated into the learner’s world.

Our teaching is obviously informed by our previous learning experience, our scientific research and our own teaching experience- the identification of our unique contributions brought to the course design and delivery in the face-to-face environment will help us strengthen our cognitive relationship with our students. The identification of these contributions can include ideas on what learners can learn only from us, excluding any other sources such as books, scientific articles or other professors. The way we think and solve problems or our own way of using humor to a topic, or our way of learning and processing content topics, personal experiences connected to course topics, all these ideas and many others represent our distinctive and personal contribution to the course content and design. This makes our teaching unique and represents an important contribution to our students’ formation (Nadrag et al, 2014, pp.205). Maybe the teaching of the future will belong to sophisticated equipment and machines, but the only thing machines will not be able to store, copy and process perfectly will be this complex human interaction and transfer which takes place in the face-to-face delivery of information (Popescu, 2012. pp. 96-97)

Therefore, a number of questions to be asked to ourselves should not be absent from the very beginning of our course design:

What are some of your unique characteristics that learners benefit from by having you as their instructor?

What can learners get from you that they cannot get from any other source (book, journal article, Internet, another teacher)?

How do you think through scenarios or problem-solve that learners would benefit from understanding?

What about your teaching do students positively comment on?

What unique experiences do you have that give you insight into your subject matter? (Smith, 2013, p.134)

The typical pattern used in teaching is to teach as we were taught, and those before us taught us the way they have been taught, with very slight personal alterations from one generation to another, this is how the cycle has gone for many decades and centuries. Change represents more work, we need to be trained in order to be able to change, to learn and internalize things we’ve never done before. Even a change of perspective requires a lot of time and cognitive effort. The design process will be visibly influenced and facilitated if we change our perspective, instead of only thinking about what we will teach, by shifting the focus on the learners in our course. „What do they need to learn?” and „How are they going to learn it” are facilitating questions in this respect.

The constant discovery of new information about brain research and learning, as well as the powerful tools being developed, have altered the learning environment offering both students and the teaching staff the opportunity to learn and work in new ways. We should be aware about the fact that today’s learners belong to a visual environment and to multitasking- they can simultaneously be text messaging, talking on the phone, listening to music and browsing the Internet. The sequentiality of these activities influences and offers a plausible explanation on their (in)capacity to sit in our course and to focus continuously for fifty minutes.

### **3. Learning Styles**

The concept of learning styles is highly debated and sometimes contested nowadays. As young academics, our first teaching experiences were connected to the idea that all people learn the same- by taking notes and reorganizing the content in the same manner. When discovering that our way of learning was not everyone’s approach, our experience with individuals and even our evaluation standards were completely restructured. There should be high academic standards for all students, but to expect everyone, regardless of their ability (and disability) to meet those standards

simultaneously, is inadequate and inherently unfair. Just as they learn differently, students test differently. In order to respect these social, emotional and cognitive differences, instruction needs to be differentiated. It is, therefore, our firm belief that a standardized test measures very poorly the diverse skills and cognitive abilities of our students in a reliable and respectful manner (Popescu et al., 2013, pp.67)

Felder and Soloman’s Index of Learning Styles Questionnaire (<http://www.engr.ncsu.edu/learningstyles/ilsweb.html>) might be informative on your students learning styles. Students are offered here useful general ideas on studying after completing this index; these will help them understand better their own style. The information is also useful for their professor as it helps including a certain amount of flexibility in the course design. Information processing can be divided into global and sequential. Individuals who process information globally can very easily view the „big picture” level. Those who process sequentially focus on individual details before understanding the big picture (Felder et al., 2016). Global learners are the most affected by the present academic system, as faculty rarely introduce the big picture of what they are teaching before presenting the details. It is important to offer global learners a global picture at the beginning and connect information to their prior familiar knowledge. Understanding how their mind functions compared to others’ allows learners to use and place their knowledge in its adequate frame.

„Many teachers are perceivers, meaning that they need information to come in through the five senses and in a sequential manner, so they may tend to teach that way. Intuitive learners learn in “fits and starts.” They may get the answer, but cannot explain where or how they did it. At times these individuals can be accused of cheating because they cannot identify the steps to working out a problem, even though they know the correct answer. It takes them a while to discern how they arrive at what it is they know” (Smith, 2014, p.83).

When creating content for our learners, Felder defines teaching style in terms of answers to five questions:

1. What types of information does the instructor emphasize: concrete (factual) or abstract (conceptual, theoretical)?
2. What mode of presentation is stressed: visual (pictures, diagrams, films, demonstrations) or verbal (lectures, readings, discussions)?
3. How is the presentation organized: inductively (phenomena leading to principles) or deductively (principles leading to phenomena)?
4. What mode of learner participation does the presentation facilitate: active (students talk, move, reflect) or passive (students watch and listen)?
5. What type of perspective is provided on the information presented: sequential (step-by-step progression—the trees) or global (context and relevance—the forest)? (Felder, 1993, pp.288)

The course content should be approached and introduced in a way that puts the emphasis on the learning target. Learners should be offered the opportunity to understand and internalize the subject and to be prepared to later retrieve and analyze information on their own (Nadrag, 2012, pp.228-229). By activating prior learning, we place the new information in a framework, in a functional context which creates meaning and sends back to past experiences.

#### **4. Conclusions**

Reflection plays an important part in the development process and even later when evaluating the overall achievement. A plan for progression should be foreseen and once we consider all of the content developed, we will need to revise the course from the learner’s viewpoint. It is quite normal during the first semester we teach, or even the first year, in some cases, to notice parts in the course that do not function the way we intended, these require to rethink and adapt the course to our learners’ and to our own needs. Another important aspect is to keep a record of students’ suggestions and frequently asked questions. Students have a unique perspective on the course which is impossible to be foreseen or duplicated, no matter how hard we try, in the revision process all these can provide a valuable input.



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## Promoting Competition Rules in Romania, 2010 - 2014 Period

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### Abstract

*The paper “Promoting Competition Rules in Romania, 2010-2014 Period” presents the activities carried out by the Competition Council in our country with the purpose of strengthening cooperation relationships with other institutions, as well as activities carried out with the purpose of enhancing the all stakeholders’ confidence in the benefits provided by competition, during the analysed period. The promotion of the competition culture is represented by activities performed by the competition authority by mechanisms that are not directly related to the effective application of the law, especially those related to strengthening cooperation relationships with other institutions and those performed with the purpose of enhancing all stakeholders’ confidence in the benefits provided by competition (ministries and state institutions, economic agents, magistrates, business associations and trade unions, non-governmental organizations, consumers, etc.).*

**Key words:** competition, promoting competition culture, Competition Council

**J.E.L. classification:** D40, D41

### 1. Introduction

Competition policy is based on the believe that maintaining a free and fair competitive environment results in the increase in the material progress in the benefit of the society, this progress being mainly represented by the optimal allocation of resources and by the increase in the quality and assortment of products and services dedicated to consumers.

An important productivity growth factor is competition. Through specific mechanisms, the activity of the competition authority generates an increase in productivity, with an impact at macro level, and with advantages propagated to consumers through lower prices, higher-quality and innovative products.

Competition leads to economic growth through:

- The pressure exercised on companies to increase internal efficiency;
- The advantage provided to efficient companies compared to inefficient ones (the inefficient ones being eventually replaced by the efficient ones);
- Due to the fact that innovation results in an increase in the dynamic efficiency, competition can motivate companies to innovate.

Competition policy represents, at macroeconomic scale, one of the most important tools available to the state to influence market dynamics, in order to increase their efficiency and to maintain a balance between consumers’ and economic operators’ interests.

### 2. The main elements related to the promotion of competition culture in the 2010-2014 period

The promotion of the competition culture is represented by those activities carried out by the competition authority through mechanisms that are not directly related to the effective application

of the law, especially those related to cooperation institutions with other institutions, and those performed with the purpose of enhancing all stakeholders' confidence in the benefits provided by competition (ministries and state institutions, economic agents, magistrates, business associations and trade unions, non-governmental organizations, consumers, etc.).

In 2010, eight cooperation agreements were concluded with the National Regulatory and Monitoring Authority for Public Procurement, the National Council for Solving Complaints, the Unit for the Coordination and Verification of Public Procurement subordinated to the Ministry of Public Finance, the Control Body of the Prime Minister, the Court of Accounts, the Ministry of Communications and Information Technology, “Alexandru Ioan Cuza” Police Academy, and with the Institute for Economic Forecasting. ([http://www.consiliulconcurentei.ro/uploads/docs/items/id6360/raport\\_2010\\_final.pdf](http://www.consiliulconcurentei.ro/uploads/docs/items/id6360/raport_2010_final.pdf), 2010, p. 98)

In 2011, several cooperation agreements were concluded with the Prosecutor's Office attached to the High Court of Cassation and Justice, the University of Bucharest – the Faculty of Law, and the Employers' Association Confindustria Romania. In the Bid-Rigging Module, created within the Competition Council in November 2010, a cooperation agreement was concluded with the Public Ministry - the Prosecutor's Office attached to the High Court of Cassation and Justice. In 2011, the elimination of the manufacturer/dealer license as a requirement in the tender documentation was one of the main achievements in the Bid-Rigging Module. The Competition Council prepared and disseminated the “Guide on detecting rigged bids” (“Ghidul privind detectarea licitațiilor trucate”) to 111 public contracting authorities in the central and local public administration. ([http://www.consiliulconcurentei.ro/uploads/docs/items/id7432/cc\\_raport\\_anual\\_2011\\_ro.pdf](http://www.consiliulconcurentei.ro/uploads/docs/items/id7432/cc_raport_anual_2011_ro.pdf), 2011, p. 10)

The Competition Council concluded, in 2012 a cooperation agreement with the Ministry of Administration and Interior, and one with the Anti-Fraud Department, in the context of the Bid-Rigging Module. The objective of the cooperation agreement concluded with the Ministry of Administration and Interior was mainly to provide specialised assistance to competition inspectors in performing unannounced inspections; to set the methods of monitoring the behaviour of economic agents in the market, with the purpose of detecting the violation of competition rules, for the protection of the market and of citizens' general interests; and to achieve an information exchange in carrying out investigations/actions performed by the parties according to their competences. ([http://www.consiliulconcurentei.ro/uploads/docs/items/id8323/raport\\_anual\\_2012.pdf](http://www.consiliulconcurentei.ro/uploads/docs/items/id8323/raport_anual_2012.pdf), 2012, p. 58)

A cooperation agreement was concluded in 2013 with the National Agency for Fiscal Administration. The objectives of this cooperation agreement aimed the cooperation between the two institutions with the purpose of enforcing the budgetary debts generated from the application of penalties by the Competition Council; and formalizing the information exchange necessary to the parties in order to fulfil their obligations under the law. ([http://www.consiliulconcurentei.ro/uploads/docs/items/id9160/raport\\_anual\\_ro\\_2013.pdf](http://www.consiliulconcurentei.ro/uploads/docs/items/id9160/raport_anual_ro_2013.pdf), 2013, p.72)

In 2010, the Competition Council, with the purpose of enhancing the dialogue between the parliamentary structures, initiated several meetings with the specialized parliamentary committees and with the heads of the two chambers of the Romanian Parliament. In December 2010, a bilateral meeting took place between the management of the Competition Council and the office of the Romanian Senate. The President of the Competition Council informed the Senate in relation to the current activity, the strategic vision and the laws and regulations of the Competition Council.

In 2011, 4 meetings were held with the parliamentary committees concerning the adjacent areas of interest in order to enhance the dialogue with the parliamentary structures (for example, the Budget, Finance, Banks and Capital Market Committee, the Economic Policy, Industry and Services Committee). During the review of the legislative framework in the competition field, weekly meetings were held with parliamentary committees. On the other hand, a permanent contact was maintained with the committee heads, members of the Parliament and of the European Parliament. The effects of the law amendments on loan agreements for consumers were estimated, being the result of the joint intervention in 2010 of the Competition Council and of the National Authority for Consumer Protection.

([http://www.consiliulconcurentei.ro/uploads/docs/items/id7432/cc\\_raport\\_anual\\_2011\\_ro.pdf](http://www.consiliulconcurentei.ro/uploads/docs/items/id7432/cc_raport_anual_2011_ro.pdf), 2011, p. 4)

The Competition Council, in 2010, organized/took part in more than 1000 actions for the promotion of the competition rules and state aid, consisting of conferences, seminars, round tables, and work meetings dedicated to the business environment, central and local public authorities, the judicial environment, and the mass-media. 50 press releases were issued and 15 press events were organized, i.e. 25% more than between 2010 and 2009. ([http://www.consiliulconcurentei.ro/uploads/docs/items/id6360/raport\\_2010\\_final.pdf](http://www.consiliulconcurentei.ro/uploads/docs/items/id6360/raport_2010_final.pdf), 2010, p. 98)

Through the presentations organized, in 2010, at the “Alexandru Ioan Cuza” University in Iași and at the “Lucian Blaga” University in Sibiu, attended by students, master degree students, and teaching staff working in the higher education, the Competition Council continued to promote the competition culture in the academic environment. They also continued to publish quarterly newsletters, the magazine Concurența – studies and research on the protection of economic competition, materials and guides on competition and state aid.

A website was created and commissioned on the Leniency Module, including all relevant the information concerning the conditions of applying the leniency policy.

Throughout 2011, the Competition Council organized two events dedicated to the consultation of all stakeholders in relation to the conclusions of the sectoral inquiry on the wholesale drug market, as well as in relation to the commitments accepted by the competition in the case of the investigation concerning the potential violation of the Competition Law and of the Community Competition Regulations by the Professional Football League and its members, in relation to the joint sale of the commercial rights on football competitions. The non-confidential final reports of the sectoral inquiries completed in 2011 were also subjected to the consultation of all stakeholders by being published on the website of the institution. ([http://www.consiliulconcurentei.ro/uploads/docs/items/id7432/cc\\_raport\\_anual\\_2011\\_ro.pdf](http://www.consiliulconcurentei.ro/uploads/docs/items/id7432/cc_raport_anual_2011_ro.pdf), 2011, p. 10)

In 2012, the Competition Council subjected to public debate the report of the sectoral inquiry on the automotive spare part market, by publishing it on the website of the institution. After the completion of this process, the competition authority presented the findings of the report and discussed them with the stakeholders. 15 press events were organized, 55 interviews were given in the written and audio-video press, and 40 press releases were issued.

In 2013, the reports of the sectoral inquiries on the distribution of film to Romanian cinemas, the card payment services, and the road and highway construction works were subject to public debate by being published on the website of the institution for a 30-day period. Following the completion of this process, the competition authority was able to include in the reports pertinent observation from all stakeholders. The Competition Council took part into 38 events at which press representatives were also present, out of which 6 were organized by the Romanian competition authority. 33 press releases were issued, 18% less compared to 2012, and 34% less compared to 2011. Throughout the year, 34 requests for information of public interest were registered and answered to, 55% more than in 2011, and 80% more than in 2012 respectively. ([http://www.consiliulconcurentei.ro/uploads/docs/items/id9160/raport\\_anual\\_ro\\_2013.pdf](http://www.consiliulconcurentei.ro/uploads/docs/items/id9160/raport_anual_ro_2013.pdf), 2013, p.72)

During 33 events, held in 2014, the actions of the Competition Council, the rules required to provide a competitive business environment, and also the actions taken to prevent anticompetitive practices were promoted. Out of them, 25% were organized by the competition authority or in cooperation with media partners, such as the news agency Mediafax, Ziarul Financiar, Legal Magazin and The Diplomat. Compared to 2013, the number of requests for information of public interest decreased to 25. ([http://www.consiliulconcurentei.ro/uploads/docs/items/id10061/raport\\_anual\\_2014.pdf](http://www.consiliulconcurentei.ro/uploads/docs/items/id10061/raport_anual_2014.pdf), 2014, p. 70)

The activity of the competition authority, in 2010, was reflected in 3342 by publications in the written press, radio-TV and on news websites, increasing by approximately 80% compared to the previous year precedent, most being at central level. Throughout the year, the Competition Council issued 98 press releases, 9% more compared to 2009, but the number of the press conferences organized (12) was maintained at a similar level to that of 2009.

Following the enhancement of the actions of publicizing the activities of the institution, the number of requests for information made based on the laws on access to public information decreased by 56% compared to 2009. On the other hand, the number of applications forwarded for resolution to the competent authorities decreased by 19%, which shows that the promotion resulted, in addition to the dissemination of information related to the activity of the Competition Council, in the increase of the awareness related to the competences of the institution.

Compared to 2010, the number of press appearances in 2011 increased by 48% (4950 appearances) and it was 2.7 higher than in 2009. This evolution proves that there is an increase in the communication efforts of the institution, and also a higher level of interest of the mass-media to take over information concerning the Competition Council and its field of activity. Out of these, 65% were accounts of the activity of the competition authority, 25% were positive articles about the institution, and 10% were negative materials. The number of press appearances in 2012 related to the activity of the competition authority was 3900, 20% lower compared to 2011 and 17% higher compared to 2010. Out of all these appearances, more than 70% were in the central press, radio and TV. The number of unfavourable mentions was 39% lower compared to 2011, the others being favourable or neutral. ([http://www.consiliulconcurrentei.ro/uploads/docs/items/id6360/raport\\_2010\\_final.pdf](http://www.consiliulconcurrentei.ro/uploads/docs/items/id6360/raport_2010_final.pdf), 2010, p. 99)

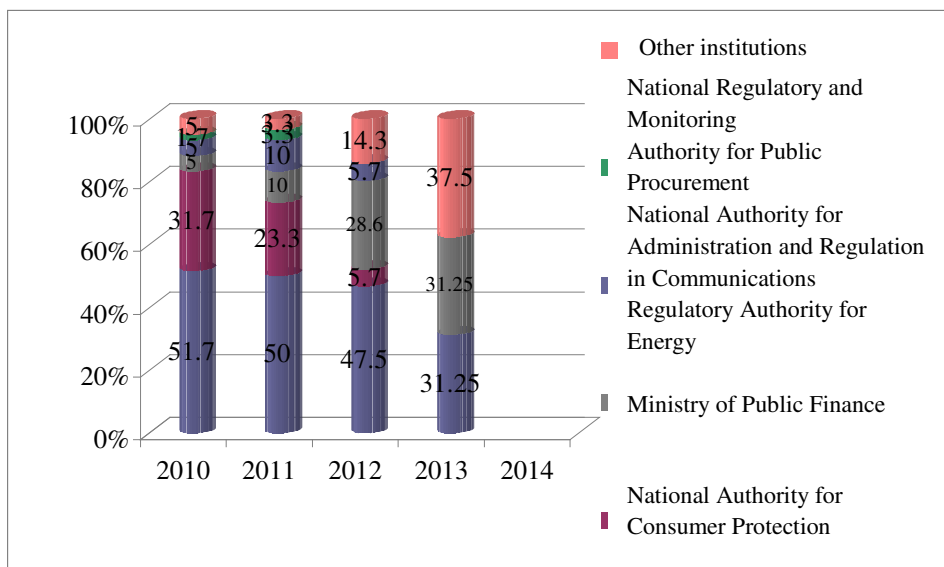
The number of appearances in the central press, referring to the activity of the competition authority was 2970, in 2013, out of which 1200 in the written press, 554 on the radio, and 1216 on TV. Out of these mentions, 16 were unfavourable (0.5% of the total number), and the others were neutral or favourable.

Compared to 2012, the number of mentions increased by 7% and decreased by 16% compared to 2011.

The main subjects reflected in the mass-media in 2013 were the privatization of CFR Marfa (more than 40% of the total number); the report on the road and highway work market in Romania; inter-bank fees charged in Romania; the takeover of the Real supermarkets by the French group Auchan; bread price, the investigation of the cereal market.

In 2014, the appearances in the central press were 1690, out of which 461 on TV, 255 on the radio, and 974 in the written press. 49 press releases were also issued, more than in the previous year. ([http://www.consiliulconcurrentei.ro/uploads/docs/items/id10061/raport\\_anual\\_2014.pdf](http://www.consiliulconcurrentei.ro/uploads/docs/items/id10061/raport_anual_2014.pdf), 2014, p. 72)

Figure no.1. The structure of the applications forwarded for resolution to other institutions depending on the competent institution (% in the total applications), in the 2010-2014 period



Source: Prepared by the authors based on the data taken over from the Annual Reports of the Competition Council in 2010; 2011; 2012; 2013 and 2014

In 2010, an important tool in ensuring the transparency of the activity of the Competition Council was the official website of the institution, which was continuously updated with information meant to help those interested. The State Aid Network website contributed to the fulfilment of the institution’s role of national information point in the field.

Due to an efficient communication with the public, the degree of transparency of the Competition Council was improved in 2011, which was proved by the decrease in the number of requests for information of public interest, and also of the applications which did not fall within the competence of the Romanian competition authority, and were forwarded to other institutions and authorities.

The degree of transparency of the competition authority in 2012 was also improved as result with a good communication with the public, which was proved by the decrease in the number of requests for information of public interest by 5% compared to 2011, and by 41.2% compared to 2010. The number of applications received that did not fall within the competence of the Romanian competition authority and were forwarded to other institutions and authorities, grew by 17% , compared to 2011, but was lower than the 2010 level by 39%. ([http://www.consiliulconcurentei.ro/uploads/docs/items/id8323/raport\\_anual\\_2012.pdf](http://www.consiliulconcurentei.ro/uploads/docs/items/id8323/raport_anual_2012.pdf), 2012, p. 60)

The number of applications received and forwarded in 2013 by other institutions and authorities was 16, lower compared to the previous years (2011-2012). The evolution of these applications shows that the promotion actions carried out in the past three years resulted in the increase in the public awareness concerning the competences of the institution.

In 2014, the number of applications received, which did not fall within the competence of the Romanian competition authority and were forwarded to other institutions and authorities was 19.

### **3. Conclusions**

The promotion of the competition culture is represented by activities performed by the competition authority by mechanisms that are not directly related to the effective application of the law, especially those related to strengthening cooperation relationships with other institutions and those performed with the purpose of enhancing all stakeholders’ confidence in the benefits provided by competition (ministries and state institutions, economic agents, magistrates, business associations and trade unions, non-governmental organizations, consumers, etc.).

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## The Impact of the Regional Electricity Market’s Coupling on the Romanian Day Ahead Market Prices

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### Abstract

*In November 2014, the Romanian DAM (Day Ahead Market) market for electricity coupled with the similar mechanisms in Hungary, Czech Republic and Slovakia. The paper analyzes the coupling mechanism, the procedures of establishing the prices and the impact of regional coupling of the electricity markets, between Romania, Hungary, Czech Republic and Slovakia.*

**Key words:** energy market, coupling mechanism, Romania, day ahead market

**JEL Classification:** Q41, Q43

### 1. Introduction

On the 19th of November 2014, OPCOM, the central electricity market operator, joined the coupled mechanism of the electricity spot market (DAM - day ahead market) already available in Hungary, Czech Republic and Slovakia. The joint project is known as 4M MC.

The integration process of the Romanian market in this coupled mechanism was the result of a long-term collaboration between the operators of the electricity markets of member states and TSOs, which meant synchronizing the information systems and the management process of DAM markets (Romania also adopted the CET schedule for the spot market, after the integration into 4M MC). At the same time, a harmonization of the legal framework was necessary, for the change to be complete. (BizEnergy, 2014)

*Figure 1 - 4M MC regional project*



*Source: (Opcom, 2016)*



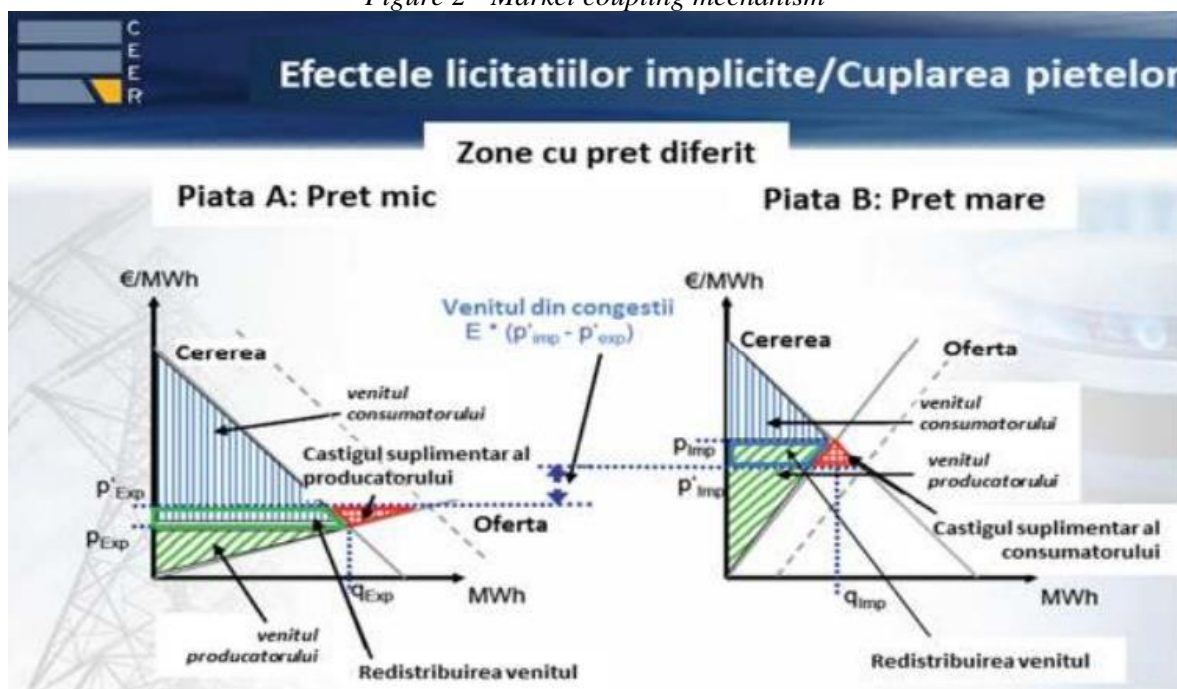
The development of this regional market is an exercise for a future common electricity market that the European Commission wants to implement, as one of the fundamental objectives of the Energy Union project.

## 2. The coupling mechanism

The operating principle of the market coupling is the correlation between demand and supply curves under a common mechanism. Thus, the market with the lower price will offer the surplus energy, if interconnection capacities (ATC) are available, to another market with a higher price.

According to definitions assumed by markets operators, the objective of the coupling is the "maximization of social welfare, defined as the sum of the additional gain of producer, the extra gain of the consumer and the revenue from congestion". (Opcom 2015)

Figure 2 - Market coupling mechanism



Source: (Opcom, 2016)

Interconnection capacities (ATC - available transfer capacity) are a component of which those interested to export electricity are obliged to bid. For the operators who can trade electricity in other countries as forward products (at the moment, only trading operators can perform these operations), this fee is added to the price of electricity sold.

Interconnection capacities which have not been purchased by after annual or monthly auctions are allocated to the 4M coupling process. Since these capabilities are bought in Romania by traders, the spot market operators have often complained about the lack the availability of ATC. (InvestEnergy, 2015)

The operation principle and the IT systems that are assuring the daily operations have fulfilled the participants' needs, almost without exception. Coupling was conducted daily, except March 20th, 2016, when a technical problem made it impossible to synchronize the four operators of the market. (Opcom 2016)

## 3. Coupling effects 4M MC

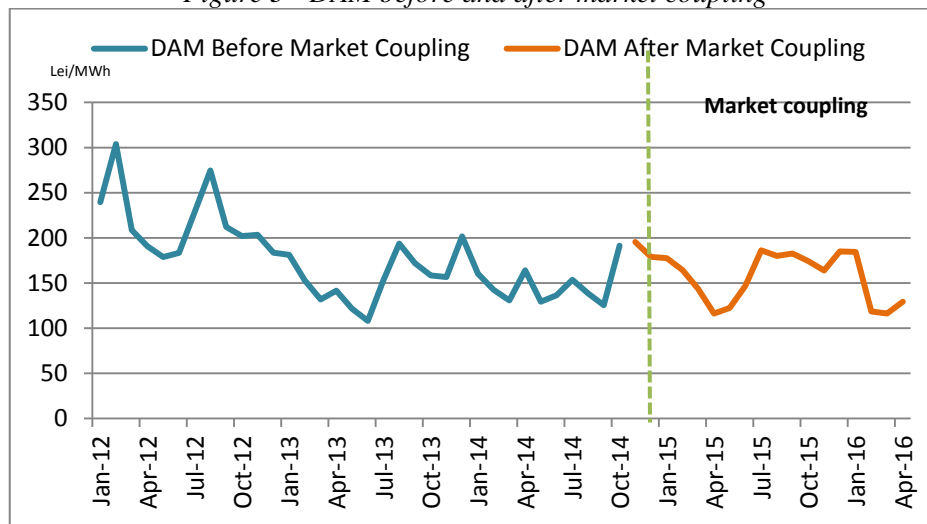
According to ANRE, the immediate effects of the coupling process were the increasing level of exports of electricity, by over 25%, for the first half of 2015, in comparison with the previous year. (Agerpres, 2015)

Available statistics on Transelectrica website reveal something else. In 2015, Romania exported 6.46 GWh, 13% less than in 2014 (7.3 GWh), but the total value of exports of electricity is determined by many other factors besides coupling mechanisms. (Transelectrica, 2016)

The evaluation drafted by OPCOM, a year after switching mechanisms, reveals a 6.4% increase in the amount of energy traded on the spot market and a significant increase of 37% in the number of market participants. (Opcom, 2015)

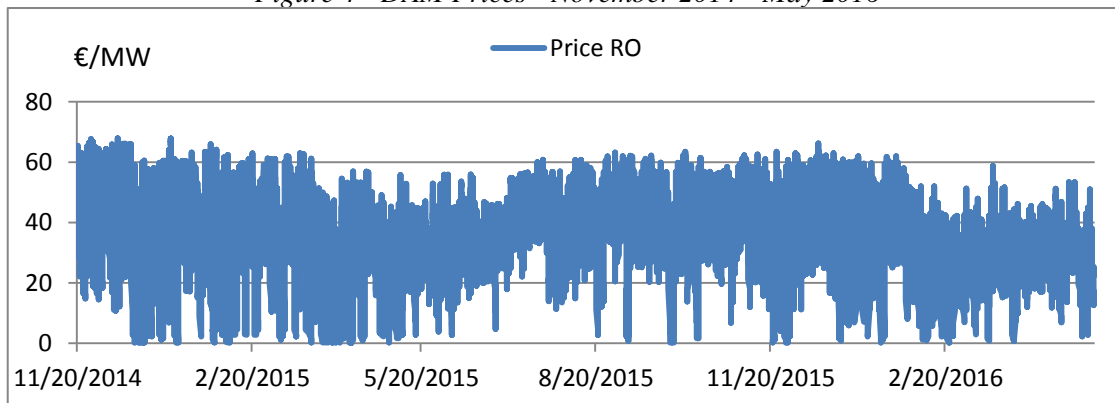
The accompanying charts show the price of electricity on the spot market. A decreasing trend of electricity prices can be observed:

Figure 3 - DAM before and after market coupling



Source: Transelectrica

Figure 4 - DAM Prices - November 2014 - May 2016



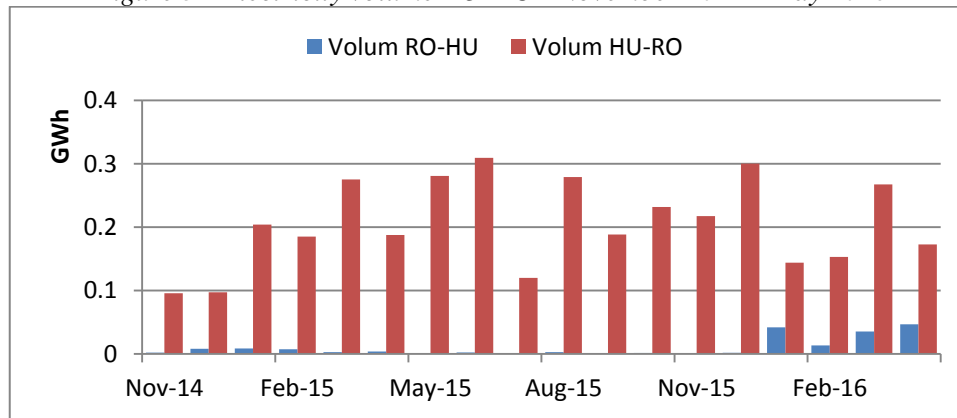
Source: Opcom

There were, on the other hand, some complaints made by other market participants, determining ANRE to issue a number of clarifications. They state that the allocation of production capacities is made through an auction organized by TSOs. According to ANRE, the capabilities are purchased largely for forward products, for the national production capacity is higher than in Hungary. ANRE asked Transelectrica to allocate a reservation capacity of 30% of the available amount.

Spot market prices in Romania are almost exclusively lower than in Hungary, a country with which we connect commercially and technically. For this reason, Romania is a net exporter of electricity (the amount exported is greater than the amount of energy imported within our borders).

However, due to the lack of connection capacity for the spot market, a problem mentioned above and signaled by various market participants, the quantity exported this way is significantly diminished. This explains the significantly higher volume that Romania imported from Hungary by spot auctions. Therefore, the forward contracts are higher than the electricity imported in Romania.

Figure 5 - Electricity volume RO-HU - November 2014 - May 2016

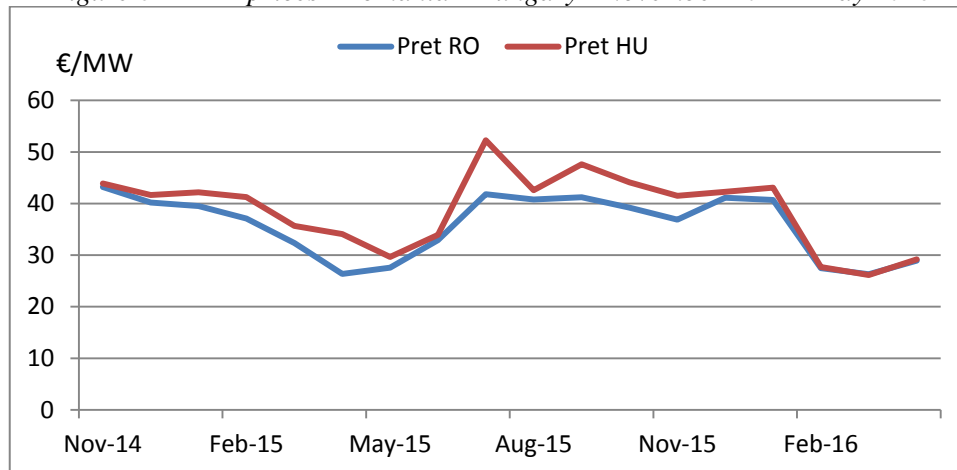


Source: Opcom

A big problem is, thus, revealed. Although traders operating in the market have the right to export electricity, the same rules do not apply to producers. In terms of alignment with European desires and in accordance with a common electricity market or the will to gain the position of regional supplier of energy security, this shortcoming must be urgently unlocked. (Pirvoiu, 2015)

The evolution of the two spot market prices is graphed in the following chart:

Figure 6 - DAM prices - Romania - Hungary - November 2014 - May 2016



Source: Opcom

The trading intervals on the spot market between Romania and Hungary have been registered for the analyzed period - November 2014 - May 2016 - a 73% degree of interconnection. For the entire coupling region (Romania, Hungary, Czech Republic and Slovakia), this indicator does not exceed 23%.

A feature made possible by the coupled trading was the appearance of negative prices for electricity. Although Romania has not met this situation before (even if the prices in some intervals were very low), other 4M MC members have managed such situations. For example, Hungary has had 3 trading intervals with negative rates (0.023% of trading time) and the Czech Republic and Slovakia have met with 118 such cases (representing 0.92% of the total trading time).

By definition, negative prices occur in the wholesale markets when a high inflexible power generation meets low demand. In order to keep operating (the shutdown and restart would cause more losses), the generation plant has to pay to maintain its production. If the producer is flexible and the costs of shutting down and restarting the facility are higher than “selling” their energy at negative prices, then they will stop activity. (EPEX SPOT, 2016)

#### 4. Conclusions

In November 2014, the Romanian DAM (Day Ahead Market) for electricity has coupled with the similar mechanisms in Hungary, Czech Republic and Slovakia. The operating principle of the market coupling is the correlation between demand and supply curves under a common mechanism. Thus, the market with the lower price will offer the surplus energy, if interconnection capacities (ATC) are available, to another market with a higher price.

Spot market prices in Romania are almost exclusively lower than in Hungary, a country with which we connect commercially and technically. For this reason, Romania is a net exporter of electricity. However, due to the lack of connection capacity, the energy traded on the spot markets from Romania to Hungary is at a very low level.

The evaluation drafted by OPCOM, a year after switching mechanisms, reveals a 6.4% increase in the amount of energy traded on the spot market and a significant increase of 37% in the number of market participants. Also a decreasing trend of electricity prices can be observed since the market coupling.

A feature made possible by the coupled trading was the appearance of negative prices for electricity. Negative prices occur in the wholesale markets when a high inflexible power generation meets low demand.

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## Analyzing the Romanian Healthcare Bureaucracy Using a Tree Diagram

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### Abstract

*Romanian healthcare confronts with several issues remained still unsolved. One of the main issues is bureaucracy. In our country bureaucracy finds a place in almost every public sector, especially in healthcare. Doctors have to complete daily papers over papers, to hand them to the National Insurance House and then, in the rest of the time, to practice their job. Unfortunately, the time for medicine is limited because of the several situations that must be completed monthly.*

*Our paper tries to analyze the main problem, along with its root causes, in order to propose viable solutions that could be adopted so our healthcare system could be among the other European healthcare systems.*

**Key words:** bureaucracy, public healthcare system, tree diagram

**J.E.L. classification:** I11; I15, H115

### Introduction

Romanian health care system is touched by many issues and problems that affect not only the patients but also the medical staff.

One of the main problems from Romanian healthcare system is bureaucracy. Unfortunately, bureaucracy touches almost every medical process slowing down the rhythm of a medical act.

The bureaucracy's existence made our healthcare system a difficult one, a system that does not work for the patient's benefit, and instead posing issues that block, on the one hand, the patient from obtaining the needed treatment, and on the other hand, the doctors' activity (with papers, completions, files etc).

The problem of bureaucracy appears mainly because the Romanian Government never acted for the people's benefit (good).

Constantly, some new papers appear, some new directives must be respected, some new institutes open their gates, in order to obstruct an action, that could be very simple.

### What is 'Bureaucracy' in a health care system?

Bureaucracy represents an administrative or social system that relies on a set of rules and procedures, separation of functions and a hierarchical structure in implementing controls over an organization, government or social system (Geyman, 2015).

In Romania, bureaucracy can be found in almost every public sector, especially in healthcare.

In our healthcare system bureaucracy can dress many forms, but the main one implies mainly, papers; doctors have to complete different papers for the National Insurance House, patients must complete papers for doctors, clinics give patients papers to sign, patients have to take the signed documents from one part to another, healthcare suppliers must copy information from one part to another and so on.

In general, the generalists' activity would have been much useful and efficient if there wouldn't have been so many papers waiting to be completed.

Even if in our paper we present the bureaucracy from the doctors' point of view, this “disease” affects, without any doubts, the patients as well (for example, if a patient is insured and he tries to benefit from a discount of buying certain treatment for cancer or some other hard disease, this

option is possible, but the procedure of touching that discount takes months – forming a file, taking different approvals from one part to another, moving from one institution to another in order to obtain the signatures - and that is the moment when the patient gives up and pays the treatment from his own money

### **Why using a Tree Diagram in our case?**

“Tree diagram”, also known as “systematic diagram”, “tree analyses”, or “analytical tree” is a Six Sigma tool used for splitting categories into smaller and smaller level of details until the root cause.

In our case, we wanted to use the tree diagram especially because we can form a step by step thinking and representation of our main issue stated (Bauer J, Duffy G, Westcott R, 2006, p.110).

Therefore, we have started by defining the main problem that need to be analyzed, which is the problem of bureaucracy and the constant generalists’ fight with it. After that, we have asked, for every branch of the tree, multiples “why’s” arriving then at the root causes of the issue and in the end, proposing a set of possible solutions.

The diagram’s root causes were collected by organizing a brainstorming with several generalists.

Though, our tree diagram is a simple one, mentioning only the main causes of the problem.

Basically, the main goal of creating this diagram was to find the main points why bureaucracy still persists and to present some applicable solutions that might reduce it (Grabau, 2008).

### **Main limits for Romanian generalists presented as a Tree Diagram**

Studying the Romanian health care system for more than 10 years, we had the opportunity to communicate with them and to observe their activity.

Therefore, we have seen how a “normal” day is for them.

During the observation time, we asked them what are the advantages and disadvantages of their profession and also what measures could be taken in order to improve their activity, and let them to exercise their true occupation: medicine.

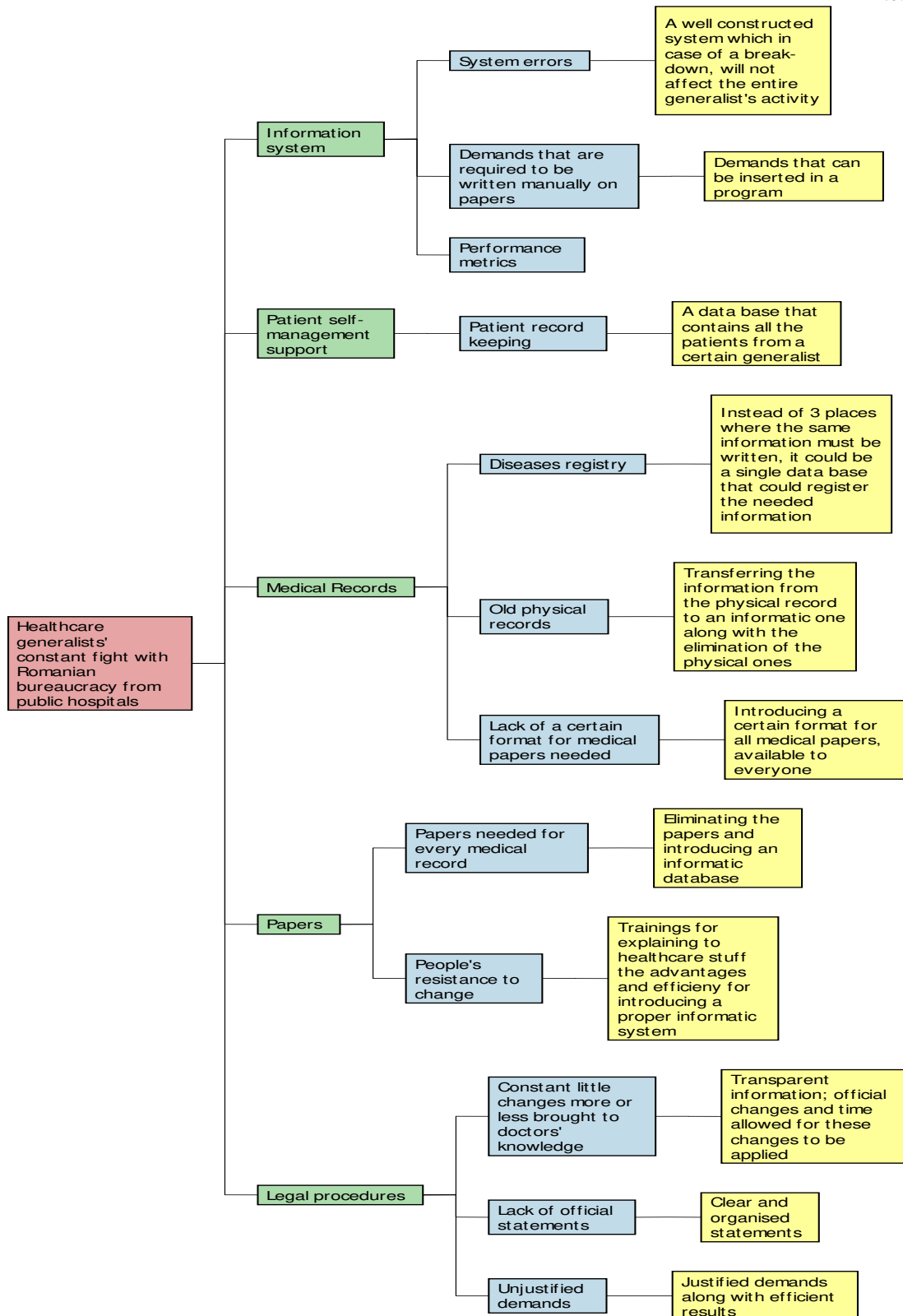
Thereby, we asked them what are the major existing impediments that “block” their activity, and therefore we made a list of 5 principal barriers as listed below (based on their answers):

1. corruption
2. bureaucracy
3. insufficient funds
4. lack of a well done informatics system
5. lack of modern buildings and equipment

In our next pages, we will not talk about each one of them, instead we will talk about only one, which affects more than three quarters of the time a generalist spends in his cabinet, more precisely about bureaucracy (that includes also some cases of corruption).

Certain aspects of bureaucracy have already been described at the beginning of this presentation, but now we’ll present the bureaucracy with the help of a Tree Diagram, that points the main problem, causes, root causes and also some solutions.

Figure no. 1: Tree Diagram of “Healthcare generalists’ constant fight with bureaucracy from public hospitals”



Source: Own representation

This diagram was developed starting from the main problem: bureaucracy for generalists. This diagram shows where the main points affected by the bureaucracy are situated.

Then, we listed the main causes, along with their root causes, as following:

- **Information system (IT system)** – Romanian generalists have already an information system called SIUI (Unique Integrated Informatics System) generated by CNAS (National Health Insurance Home). In this system, doctors find all the insured persons, no matter the age. Basically, they work with this program by searching a certain patient, introducing the latest medical records and supervising vaccines for children.  
Unfortunately, this system is not enough. Besides the fact that is constantly blocking (and in this case, doctors cannot directly communicate with CNAS and therefore cannot elaborate free medical recipes), they write the same information on the physical papers (they write in the system, then the identical information is written on the physical patients’ registry and then in the consultation registry). So, the same information is written in 3 sides, just because nobody controls that information system and every committee that comes from CNAS looks in the physical papers.  
Conclusion: generalists benefit from a no purpose informatics system (because no one takes it into account) and spend time (instead of consulting) with writing the same thing in 3 different places.
- **Patient self-management support** – in Romania this support exists, on papers, for patients with chronic illness.  
Normally, generalists (family doctors) have to engage in the treatment and well going of patients’ illness, counseling and supporting them.  
But, in Romania, this kind of support, as we already mentioned, is only on papers. For every patient, doctors (generalists only) must complete a document based on the patient’s history, antecedents and ways of helping him/her with the illness and then, maintain a permanent contact with that patient and also guiding him/her to certain clinics for receiving a well treatment. Unfortunately, in our case, on the one side, patients with chronic illness don’t go so often to the family doctor, and on the other side, family doctors don’t complete the specified papers because, in the end, those papers won’t arrive anywhere, they remain only written papers without no one to keep any accountancy of them. Once again, the bureaucracy part is completed, but without the part where results are visible both for patients and for doctors.
- **Medical records** – As it was already mentioned at the informatics system, generalists must keep 3 medical records in the same time for each patient. For example, if a generalists has 20 patients per day, and each time he writes (in the informatics system, then in the patient’s registry and then in the clinical registry) he spend an average of about 2 minutes per operation, than instead of creating a value adding activity for the patient, the doctor creates a non-value activity, spending (from a total of 7 or 8 hours of working schedule), an average of about 100 minutes only for writing. So, instead of consulting other patients, the doctor must waste 100 minutes for writing 3 times the same information.
- **Papers** – For example, from 3 to 3 months, every insured person must bring a certificate from his work place in order to demonstrate that he is still an employee. This certificate is valid for only 3 months. If that patient don’t have the certificate in the moment of the appointment (or in the case that the old certificate is already expired), the generalist is not allowed to give him a free medical receipt (this action is imposed by the law). That wouldn’t be such a huge problem, only if it was a specified format for that certificate. In the worst case scenario, the patient goes to work, takes the certificate and brought it to the generalist. If that certificate doesn’t have a certain aspect (with certain numbers, formulations and laws written) the certificate is rejected and the patient must go once again at the human resource department to ask for a new updated certificate.  
This thing happens because there isn’t a specified format, a blank model, for all the medical papers needed in order to ease the process.
- **Legal procedures** – almost every month the CNAS introduces a little change or a little derogative or simply and update at the informatics system. These changes affect the generalists, on the one hand, because their work is not easier, and on the other hand, because they have to inform the patients about the new rules and papers that must be brought.



For example, last year was introduced a new mandatory action: every child that goes to the kindergarten must bring from the generalist a detailed summary about his/her activity until a certain age (diseases, treatment, medical activity etc). The generalist must complete 5 pages with writings and then he must draw a diagram to forecast the medical future and the possible diseases that could appear for the child. On the first place, this action is time consuming, and on the second place, unfortunately, no one takes into consideration those writings – it’s just another way of presenting an elaborate model of Romanian bureaucracy.

## Conclusions

Although a magical movement cannot be done in several minutes, still we propose some solutions that might help the healthcare system and especially, the generalists:

- First of all, the whole healthcare system would need a well-organized and complete **informatics system**. Even if at a first view, this system wouldn’t have been taken serious, still it could create wonders for doctors. This system could include all the patients’ medical record, eliminating in this way, the old medical files. Second of all, this system should be constantly supervised and verified (for avoiding technical issues and medical fraud).
- General **format papers** for everyone. At the beginning of each year, for example, the National Insurance House should post on their website a typical format for every certificate that the human resource department should give to the employees for their family doctor. In this way, patients would go to their generalist directly with the specific format without worrying that the format might not be correct.
- The informatics program should be connected to the National Insurance House’s website and alert the generalist every time a change (either in their operation system or in some derogation) is produced.
- **Trainings** should be organized in order to accustom the medical staff with the benefits of a complete informatics system. In present, there are still doctors that prefer to wright the information on a paper, rather than introducing it in an informatics system.

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## General Considerations Concerning the Principle of Territoriality of the Romanian Criminal Law

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### Abstract

*The expression used by the legislator in article 8 paragraph 1 of the Romanian Penal Code shows that the Romanian criminal law enforcement is exclusive and unconditional, so regardless of the category of acts which are committed on the Romanian territory, the criminal jurisdiction will be always exercised by the Romanian State through its competent bodies.*

*From this point of view it appears that the Romanian legislator remained constant regarding the territoriality of Romanian criminal law.*

*In the current regulation of art. 8, paragraph 3 of the Penal Code, the offense committed in Romania, is any offense committed on the territory defined in art. 8 paragraph 2 of the Penal code or a ship under the Romanian flag or an aircraft registered in Romania.*

**Key words:** territoriality, sovereignty, legal order

**J.E.L. classification:** K14, K10,

### 1. Introduction

The justification of the concept of territoriality of the Romanian criminal law is found in the principle of Romanian sovereignty, principle according to which the Romanian State is the only entity that has the exclusive and unconditional right to defend the legal order of Romania, through incriminating the actions which attack one way or another the fundamental social values that lie at the foundation of this order.

### 2. Introductory aspects

According to art. 8, paragraph 1 of the Romanian Penal Code, Title I, Chapter II, Section 2, the Romanian criminal law applies to offenses committed on Romanian territory (Noul Cod penal; Noul Cod de procedură penală, Ed. Hamangiu, 2014, Bucharest, page 9).

In this way, the Romanian legislator clearly intended to express unequivocally that the Romanian State is sovereign in applying its criminal law to all offenses committed on Romanian territory.

The expression used by the legislator in article 8 paragraph 1 of the Romanian Penal Code shows that the Romanian criminal law enforcement is exclusive and unconditional, so regardless of the category of acts which are committed on the Romanian territory, the criminal jurisdiction will be always exercised by the Romanian State through its competent bodies.

From this point of view it appears that the Romanian legislator remained constant regarding the territoriality of Romanian criminal law.

Thus, in the old rule in article 3 of the Penal Code of 1969, the principle of territoriality of the Romanian criminal law was expressed similarly to the expression used in the incriminating text of article 8 paragraph 1 of the Penal Code in force.

Basically, between the two incriminating texts there is no difference in terms of the will that the legislator wanted to convey, in this regard it was found that it uses the same literal expression.

The justification of the concept of territoriality of the Romanian criminal law is found in the principle of Romanian sovereignty, principle according to which the Romanian State is the only entity that has the exclusive and unconditional right to defend the legal order of Romania, through incriminating the actions which attack one way or another the fundamental social values that lie at the foundation of this order.

In this regard, the capacity of the perpetrator, Romanian citizen, foreign citizen or stateless person, is not relevant for the exercise of the Romanian criminal law, the law being applied equally for everyone and exclusively and unconditionally, without being in competition with any other foreign criminal law (George Antoniu - coordinator, Costică Bulai, Constantin Duvac, Ioan Griga, Gheorghe Ivan, Constantin Mitrache, Ioan Molnar, Ilie Pascu, Viorel Pașca, Ovidiu Predescu (authors) – Explicații preliminare ale Noului Cod Penal, 1<sup>st</sup> volume, Ed. Universul Juridic, Bucharest, 2010, page 94).

Furthermore, the conditions of criminal liability, the legal classification of the offense, the modalities of application, the individualization and enforcement of criminal sanctions will be taken into account and will be applied according to the Romanian criminal law, without considering another foreign regulation, even given that this regulation could be favourable to the offender in any way.

In these circumstances, one can easily observe that any provision which can be favourable to the perpetrator but not existing in the Romanian criminal law, cannot be applied to the perpetrator. Therefore, even if the perpetrator has been prosecuted and sentenced abroad for acts committed within Romania's territory, the foreign criminal court rulings are not published by law in Romania, not having the force of *res judicata* (final decision).

According to the provisions of Law no. 302/2004 on international judicial cooperation in criminal matters and those under criminal conventions and treaties to which Romania is part or acceded, only after the recognition by the courts in Romania of a foreign judgment can this take effect in the Romanian state over the convicted person and only within the recognition made by the Romanian courts.

In fact, even in this case, what applies on the territory of Romania is nothing but the judgment of the Romanian recognition courts and not the foreign criminal rule in its original form.

From this point of view, we may have several hypotheses. A first hypothesis is that the foreign criminal court has convicted the perpetrator for offenses committed on Romania's territory.

In this situation, if the foreign court's ruling is being recognized in parallel with the prosecution of acts committed within the territory of Romania, on the occasion of the judgment can be considered the penalties applied in the foreign judgment, and the part of the penalty already enforced abroad may be deducted.

At this point it could be taken into account the principle of "non bis in idem", if the perpetrator was brought on the territory of Romania by one of the forms of judicial cooperation in criminal matters, referred to in article 1 of law No. 302/2004, in application of article 8 of the same law, but we will be in the situation that the judging by the Romanian courts may not be hindered.

Another hypothesis is that in which the foreign criminal courts have ordered the acquittal or cessation of criminal trial for acts committed in Romania.

In this hypothesis a possible retrial in the Romanian State of those acts is only possible by applying the principle of "non bis in idem", but even using this principle, of course only in the event of the existence of a form of international judicial cooperation in criminal matters, it can get to the inadmissibility of this form of cooperation, and in no case to the non-application of the Romanian criminal law.

Moreover, it is widely accepted in the Romanian criminal legal literature that the principle of territoriality is justified also by the fact that an effective ruling is held in the best conditions there where the criminal deed was committed assuming that the perpetrator knows best the law of the place where the deed was committed (George Antoniu - coordinator, Costică Bulai, Constantin Duvac, Ioan Griga, Gheorghe Ivan, Constantin Mitrache, Ioan Molnar, Ilie Pascu, Viorel Pașca, Ovidiu Predescu (authors) – Explicații preliminare ale Noului Cod Penal, 1<sup>st</sup> volume, Ed. Universul Juridic, Bucharest, 2010, page 94).

Next, we will examine the application of the Romanian criminal law to acts committed on the Romanian territory, analysing the ways in which the legislator understood this application, by explaining the concepts used in article 8 of the Penal Code.

### 3. The concept of territory

To be able to apply the Romanian criminal law to acts committed on Romanian territory, as I pointed out, is certainly necessary for the legislator to define the notion of "territory".

Thus in article 8 paragraph 2 of the Romanian Penal Code, by Romanian territory is understood "the extent of land, territorial sea and waters, soil, subsoil and air space between state borders".

It is observed in this case that the Romanian legislator took over, with some modifications, the definition of territory from article 142 of the old Penal Code of 1969. This was and is necessary because the concept of territory under the Romanian criminal law has a broader meaning than the concept of territory in the geographical sense, objective reality which the legislator has clearly taken into account.

From the listing observed in article 8 paragraph 2 of the Penal Code, it can be seen that the notion of territory of Romania comprises several elements: the surface of the land, inland waters, inland maritime waters, the territorial sea, the subsoil of the Romanian territory and of the territorial sea and the airspace above the land surface and the territorial sea.

- *The surface of the land* - refers to the stretch of land (dry land) located between the political and geographical borders of Romania.

The limits of this area are set by the Romanian state through bilateral border agreements with each of the countries Romania shares a border with.

The marking of these limits is made by distinctive signs called terminals, earth mounds, etc. (Vasile Drăghici, Drept Penal – Partea Generală, Course, Ed. Pro Universitaria, Bucharest, 2010, 2<sup>nd</sup> edition, page 66).

- *Inland waters* - are to be found within the limits of the terrestrial surface, being made up of standing waters (lakes, puddles) and flowing waters (rivers, mainstreams, streams).

In the case of standing waters, the border line is usually established on the midline, the middle line of the standing water or by the border determined through the border convention with the neighbouring States.

In the situation of flowing waters, usually the border line coincides with the centreline of the navigable parts of the stream, the river or the lowest depths.

*Inland maritime waters* – by Law No. 17/07 August 1990 amended, completed and republished in the Official Gazette No. 252/08 April 2014, was established in Romania which is the legal regime of inland maritime waters, of the territorial sea, of the contiguous area and the exclusive economic zones of Romania (See Law no. 17/1990).

Thus, in article 5 of this law, it was foreseen that the surfaces of water situated between the shore and base lines constitute the Romanian inland maritime waters.

According to art. 2 of Law no. 17/1990, the baselines are the biggest reflux lines along shoreline or, as appropriate, the straight lines joining the furthestmost points of the shore, including from seaward shore, islands, docking constructions, hydro-technical facilities and other permanent port facilities.

The geographical coordinates of the points between which are plotted the baselines are established by law or the Government decisions.

- *Territorial sea* - According to art. 2 paragraph 1 of Law no. 17/1990, the territorial sea of Romania includes the sea strip adjacent to the shoreline, or, where appropriate, inland marine waters with the width of 12 nautical miles (22.224 m) measured from the baselines.

From the same article no. 2, paragraph 4 mentioned above, it is found that the outer limit of the territorial sea is the line every point of which is located at a distance of 12 nautical miles measured from the nearest point of the baselines.

From a further examination of the same regulation indicated above, it is noted that Romania's territorial sea is delimited from the neighbouring States territorial sea through agreements with each of these States under international law.

The outer and side limits of the territorial sea constitute Romania's maritime State border.

- *The subsoil of the terrestrial and aquatic space* (interior waters, inland maritime waters, the territorial sea) is located in the deep underground, without limits, its extent being localized between the State border lines, as shown above.

- *The airspace* – Comprises the air column above the terrestrial territory, the inland waters, the territorial sea and the inland maritime waters, without being considered, in general, any height limits.

In the criminal doctrine existed and still exist several theories about the extent of this airspace.

According to Professor Ion Tanoviceanu, the airspace was named "territorial atmosphere" Ion Tanoviceanu - *Tratat de drept și procedură penală*, Ed. Curierul Juridic, Bucharest, 1924, 1<sup>st</sup> volume, page 312.

A second theory claims the principle of freedom of airspace, while other authors plead for the sovereign right of the State over the airspace, with the permission of the free overflight of other states' civil aircrafts (George Antoniu - coordinator, Costică Bulai, Constantin Duvac, Ioan Griga, Gheorghe Ivan, Constantin Mitrache, Ioan Molnar, Ilie Pascu, Viorel Pașca, Ovidiu Predescu (authors) – *Explicații preliminare ale Noului Cod Penal*, 1<sup>st</sup> volume, Ed. Universul Juridic, Bucharest, 2010, page 95).

Regarding the Air Code, from the point of view of the airspace regulation, it is shown that here the upper line is foreseen, respectively the lowest perigee (90-110 km), in which the State fully exercises its sovereignty.

After this upper limit comes the outer space which is a free space, not subject to any jurisdiction and governed by the rules of international law.

- *The notion of crime committed on the Romanian territory*

After explaining the concept of territory and its components, it is of course necessary to show what it is meant by act committed on the territory of the country.

In the current regulation of art. 8, paragraph 3 of the Penal Code, the offense committed in Romania, is any offense committed on the territory defined in art. 8 paragraph 2 of the Penal code or a ship under the Romanian flag or an aircraft registered in Romania.

In article 8 paragraph 4 of the Penal Code it is stated that "the crime shall be deemed committed on the Romanian territory also when on this territory or on a ship under Romanian flag or aircraft registered in Romania was carried out an act of execution, instigation or aiding to a crime or even if a partial result of the offence took place".

From the analysis of this text, it is found that the ubiquity principle (derived from the full deployment theory) applies to the situation when on the Romanian territory (meaning here all parts of the territory, including ships and aircrafts) have been carried out acts of incitement, complicity or the result of the crime has occurred.

Still it is observed that there are another 2 instances when the Romanian criminal law is applied on the country's territory that refers to committing the act entirely on the territory of Romania or on a Romanian ship or aircraft.

It is interesting to note that the concept of territory in the sense of the criminal law has been given by the Romanian legislator a special meaning by being included in this concept also the ships and aircrafts.

The Romanian criminal doctrine shows that however it remains unregulated in law enforcement the criminal act committed on offshore sea drilling platforms (see to that effect the opinion of Professor George Antoniu and other Romanian authors - George Antoniu - coordinator et al., op. cit., page 95).

Dwelling on this issue, you can find that in law No. 17/1990 in chapters 2 and 3 is regulated the legal regime of the continuous and exclusive economic zones in Romania.

In this regard, in articles 8 and 16 of law No. 17/1990 is stipulated that Romania shall exercise the prevention and suppression of violations on its territory in the field of customs, fiscal, health and crossing the State borders, having exclusive jurisdiction on the artificial islands, installations and other facilities.

Around them are established security and protection areas of up to 500 meters from every point of their outer limits.

Therefore, based on this rule, it can be seen that in the contiguous and exclusive zone from the Romanian Black Sea the Romanian State exercises an exclusive penal jurisdiction over

installations, artificial islands etc. This category includes the maritime and offshore rigs, so that the acts committed on these offshore Romanian platforms fall under the Romanian criminal jurisdiction.

Obviously, there is no question of applying Romanian exclusive jurisdiction in the event that these platforms would be in Romanian territorial waters, Romanian criminal law being applied exclusively and unconditionally.

Another hypothesis would be when Romanian platforms would be found in international waters (free waters) we believe that the Romanian criminal law would apply exclusively and unconditionally for the acts committed on these platforms, in accordance with art. 8 paragraph 3 sentence 2 of the Penal Code, whereas the maritime drilling rigs can be assimilated with the sea-going Romanian vessels, being floating plants which sail and are moving from one point to another under the Romanian flag.

We believe that such an interpretation was envisaged by the legislator when it understood to drop the provision relating to offshore maritime rigs from article no. 8 of the Penal Code.

Also, assuming that the rigs would operate in the exclusive economic zone of another country, the exploitation of resources in this situation calls for the conclusion of a protocol or convention, through which the criminal jurisdiction and regime will be regulated.

#### 4. Conclusions

At the end of our study regarding the meanings of the concept of *rent* we find that the notion we have analyzed is used in various fields, such as law, finance, mining, construction, agriculture etc. Incidentally, this was the starting point for our topic of research. Among these meanings that we can come across in everyday practice, two are most common, namely *agricultural rent* and *lifetime tenancy agreement*.

The existence of a legal relationship that is based on rent (any of its forms) requires obtaining a regular income entering the heritage of the owner's property over which rent is exerted in return for the owner's yielding the usage of the heresaid asset for a fixed or unfixed period of time, depending on the rent type.

We cannot claim to have exhausted the complete investigation of all the meanings that the concept of *rent* undergoes, but we tried to bring to the attention of those interested a substantial part of the gathered information.

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2. See Vasile Drăghici, Drept Penal – Partea Generală, Course, Ed. Pro Universitaria, Bucharest, 2010, 2<sup>nd</sup> Edition, page 65
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4. See Vasile Drăghici, Drept Penal – Partea Generală, Course, Ed. Pro Universitaria, Bucharest, 2010, 2<sup>nd</sup> edition, page 66
5. See Law no. 17/1990
6. See Ion Tanoviceanu - Tratat de drept și procedură penală, Ed. Curierul Juridic, Bucharest, 1924, 1<sup>st</sup> volume, page 312
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8. See George Antoniu - coordinator et al., op. cit., page 95

## General Aspects Regarding the Crime of Human Trafficking

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### Abstract

*Wishing to emphasise the importance of the fundamental social values defended by the criminalization of the human trafficking crime, the Romanian legislator, with the change of the penal code, by the entering into force on February 1, 2014 the new code, incriminated human trafficking in the article 210 of this complex criminal law.*

*Thus, according to article 210 of the Penal Code, the crime of human trafficking involves „recruiting, transportation, sheltering or receiving of a person with the purpose of exploiting. For the offense of human trafficking there may exist preparatory acts, but the law does not incriminate these acts as crimes and does not punish them. The attempt is punished according to article 217 of the Penal Code, stating that the attempt to the offenses stipulated at articles 209- 211 and article 213 paragraph 2 of the Penal Code shall be punished.*

**Key words:** human trafficking, social values, person’s freedom

**J.E.L. classification:** K14, K10

### 1. Introduction

On December 2, 1945 through the UN General Assembly Resolution was adopted “The Convention for the Suppression of the Traffic in Persons and of the Exploitation of the Prostitution of Others”, convention that came into effect on July 25, 1951. Previously, in 1921, in Geneva had been adopted the “International Convention for the Suppression of the Traffic in Women and Children” and in 1996 again in Geneva, “The Convention of the Suppression of Slavery”.

The concerns of the international organizations on this matter have intensified, thus on November 15, 2000 in Palermo, Italy, was adopted the Protocol regarding the prevention, suppression and punishment of the traffic in persons, especially in women and children, additionally to the UN convention against the transnational organized crime and subsequently, on May 16, 2005 in Warsaw was adopted the Convention of the European Council regarding the fight against the traffic in human beings, which for the first time since the Palermo Protocol, succeeded to put forth the structured definition of the traffic in human beings, definition which was subsequently included in article 4 of the Convention of the European Council mentioned above.

### 2. Introductory aspects

Thus, it was considered that “the traffic in human beings means the recruitment, transportation, transfer, sheltering or reception of persons by means of threat, use of force or other forms of coercion by abduction, fraud, deception, abuse of authority or of a situation of vulnerability or by the acceptance or receipt of money or other benefits in order to obtain the consent of a person having authority over another one with the purpose of exploitation. The exploitation involves at least the exploitation through prostitution of another person or other forms of sexual exploitation, forced labor or services, slavery or practices similar to slavery, organ usage or procurement” (the Protocol to prevent, suppress and punish trafficking in persons, especially women and children, supplementing the united nations convention against transnational organized crime of 15.11.2000, ratified by Law no. 565/2002).

Consistent with the conventions it is part of or the agreements which it has concluded on this subject, Romania proceeded to criminalizing human trafficking, appropriating most of the provisions of international documents in this matter.

Initially, the crime was criminalized by article 12 of Law no. 678/2001 on preventing and combating human trafficking and consist of the "recruitment, transportation, transfer, accommodation or reception of a person trough threats, violence or other forms of coercion, through abduction, fraud, deception, abuse of authority or taking advantage of the person's inability to defend themselves or to express their will or trough offering, giving, accepting or receiving money or other benefits in order to obtain the consent of the person having authority over another person for the purpose of exploitation of that person" and was punishable by imprisonment from 3 to 10 years and the prohibition of certain rights.

Paragraph 2 of article 12 of the same law refers to committing human trafficking in the following circumstances, namely: committed by 2 or more persons jointly, through the infliction of serious harm to the victim's health or bodily integrity, by a public official in the performance of his/her duties, and in paragraph 3, by causing the death or suicide of the victim, and so the original deed was qualified as a more serious one, the special maximum penalty reaching 25 years.

Wishing to emphasise the importance of the fundamental social values defended by the criminalization of the human trafficking crime, the Romanian legislator, with the change of the penal code, by the entering into force on February 1, 2014 the new code, incriminated human trafficking in the article 210 of this complex criminal law.

Thus, according to article 210 of the Penal Code, the crime of human trafficking involves „recruiting, transportation, sheltering or receiving of a person with the purpose of exploiting this one committed trough:

- a. coercion, abduction, misleading or abuse of authority;
- b. taking advantage of the inability to defend or to express their own will or of the particularly vulnerable status of that person;
- c. offering, giving, accepting or receiving money or other benefits in exchange of the consent of the person who has the authority over another person, the punishment being imprisonment from 3 to 10 years and the prohibition of certain rights.”

In paragraph 2 of the same article 210, human trafficking committed by a public official becomes the aggravated variant of the crime, punished with imprisonment from 5 to 12 years (Noul Cod Penal , Noul Cod de procedură Penală , Ed. Hamangiu, Bucharest, 2014).

Lastly, in paragraph 3 of article 210 the legislator points out that the consent of the trafficking victim is not an explanatory cause.

It appears that a good part of the provisions of article. 12 of Law no. 678/2001 have been taken over in article no. 210 in the new Penal Code, maintaining the structure of the definition envisaged by the Palermo Protocol of 2000.

### **3. Pre-existent factors**

#### **1. The object of the offense**

a. The special legal object of the offense consists of social relations which arise, are carried out and develop around the preservation of individual freedom against human trafficking acts. In this regard, the crime of human trafficking does not have the same object as the offenses of unlawful deprivation of liberty, since it is a medium offense aiming to achieve a result from exploiting the victim.

From this point of view, the aim is not protecting the person’s freedom from certain points of view, namely moral freedom, the freedom of movement, but the person's freedom in a broad sense, understanding by this all the rights of an individual (Alexandru Boroi, Drept Penal – Partea Specială, 2<sup>nd</sup> edition , Ed. CH Beck , Bucharest, 2014, page 131).

#### **b. The material object**

The offense has a material object, whereas the actions or inactions which constitute the material element are committed upon a person par excellence, so the material object of the offense is the body of the person trafficked in any way.

#### **c. The subjects**



The active subject of the offence may be any natural person who fulfils the conditions to be held criminally accountable.

If we consider the aggravated variant regulated by article 210, paragraph 2, it is observed that the active subject is qualified, namely it is a public official in the exercise of his/her duties.

The passive subject of the crime is a natural person, regardless of sex, an adult, of over 18 years of age.

If the person has less than 18 years of age, the act qualifies as a child trafficking offense, referred to in article 211 of the Penal Code.

#### **4. Constituent content**

In order for the offense to be committed, there must be a prerequisite situation which refers to the existence of a person likely to be trafficked.

##### **1. The objective side**

###### **a. The material element**

The material element has an alternative normative structure, the legislator envisaging in the text of article 210, paragraph 1 of the Penal Code several alternative actions by which the offense may be committed, namely the recruitment, transportation, transfer, sheltering, reception.

The recruitment of the victim for the purpose of the exploitation means the identification, the discovery of a vulnerable person and the determination of this person to become a victim of exploitation.

Transportation refers to the action of a participant in committing the offense of moving from one location to another by the use of means of transport, the victim who is or will be exploited.

Transfer refers to the activity of a participant in committing the offense by which he/she arranges and carries out the change of the exploited victim's accommodation location.

Sheltering refers accommodating and hosting to a person for in view of exploitation.

Reception refers to the action of taking over, taking a person with the purpose of exploitation (Ion Ristea, Drept Penal – Partea Specială, Ed. Universul Juridic, Bucharest, 2014, page 132).

In order for the act to be considered a crime it is necessary, however, that the offending actions previously shown to be perpetrated by coercion, abduction, misleading or abuse of authority, or by taking advantage of the inability to defend oneself or to express their will or of the manifested state of vulnerability of the victim or by offering, giving or accepting money or other benefits in exchange of the consent of the person who has authority over the victim (Ilie Pascu et al. – Noul Cod Penal Comentat – Partea Specială, 2<sup>nd</sup> Edition, Ed. Universul Juridic, Bucharest, 2014, page 126).

These expressions used by the legislator in the definition of the essential requests linked to the material element are clearly defined in the Romanian legal literature and do not require further explanations.

b. The immediate consequence consists in jeopardising the trafficked person, respectively in creating a strong fear, a state incompatible with the rights of an individual, in a broad sense, with a person's freedom.

###### **c. The causality link**

In the case of the human trafficking offense, it needs to be demonstrated that at least one of the alternative actions of the material element of the offense is in direct causal connection with the state of jeopardy inflicted on the trafficked victim.

##### **2. The subjective side**

For the offense of human trafficking, the acts that form the material element are committed with direct aggravated intent, the aggravation resulting from the purpose of the infringer, purpose that is related to the exploitation of the trafficked person.

Clearly, the notion of a person's exploitation is to be found in article 182 of the Penal Code, which shows that exploitation involves:

- The obligation to perform work or to offer services forcefully;
- Keeping in slavery or other similar processes of deprivation of freedom or servitude;
- the obligation to engage in prostitution, pornography, for the production and dissemination of pornographic materials or other forms of sexual exploitation

- forcing someone to beg;
- the illegal removal of organs, tissues or other human cells (Noul Cod Penal, Noul Cod de procedură Penală, Ed. Hamangiu, Bucharest, 2014 and Alexandru Boroii, op. cit. page 132)

In the specialized literature it was shown that if the purpose of exploitation is achieved, we can have a competition between the offense of human trafficking and other crimes, of the type based on the purpose of exploitation, pimping or subjecting someone to forced or compulsory labour.

Furthermore, it was also shown that this object of exploitation distinguishes between human trafficking and the smuggling of migrants, which it is done to aid the illegal border crossing in exchange for money (Ion Ristea, op. cit, page 134).

## 5. Types

For the offense of human trafficking there may exist preparatory acts, but the law does not incriminate these acts as crimes and does not punish them. The attempt is punished according to article 217 of the Penal Code, stating that the attempt to the offenses stipulated at articles 209- 211 and article 213 paragraph 2 of the Penal Code shall be punished.

## 6. Partaking in an offense

Partaking in an offense occurs when the trafficked person is put in a state of danger, state which is achieved by committing one of the offenses that constitute the material element, namely: recruitment, transportation, transfer, sheltering or reception of persons in view of exploitation.

It is enough that one of these actions be committed for the offence to exist, but in the case of committing several of the actions referred to above, the offence will constitute a natural unit.

However, if these actions target the trafficking of different victims, regardless of the circumstances of place and time and whether or not there is a single criminal resolution, the actions will constitute distinct offences, in function of the number of victims trafficked.

The deed is susceptible to have an aggravated form, the legislator incriminating in article 210 paragraph 2 of the Penal Code the offense of human trafficking committed by a public officer during the performance of his duties.

Note that in this context the legislator has qualified both the subject of the crime – the public officer, and the circumstance as the action to be performed during the exercise of his/her duties, when committing the offence of human trafficking.

Regarding the notion of public officer, it is necessary to interpret this concept within the meaning of article 175 of the Penal Code, where is stipulated as the person with permanent or temporary title, with or without remuneration who exercises, carries out certain activities which makes him/her a public officer.

On the other hand, it is not mandatory that the deed committed by a public officer in the performance of his/her duties be linked to those duties, being enough for it to be committed during the performance of the duties.

It appears that this circumstance of aggravation is the only one that was taken from the old regulations, article 12 paragraph 2 of Law No. 678/2001.

At the same time, according to article 210, paragraph 2 of the Penal Code, the consent of the trafficking victim is not an explanatory cause. This provision has also been taken from Law no. 678/2001 in which was stipulated at article 16 that the criminal liability of the perpetrator is not removed even if there is a consent of the victim of human trafficking.

## 7. Penalties

According to the provisions of Article 210 paragraph 1 of the Penal Code, the standard offense is punishable by imprisonment from 3 to 10 years and the prohibition of certain rights, and the aggravated form referred to in paragraph 2 shall be punished with imprisonment from 5 to 12 years.

## 8. Conclusions

*The link between the human trafficking crime and other crimes.* First, the offense of human trafficking is closely related to the crime of illegal deprivation of liberty under article 205 of the Penal Code, whereas human trafficking is a complex crime, absorbing in its constitutive content the standard form of the crime of illegal deprivation of liberty (Decision no. 1834 / 22.11.2006 of the High Court of Cassation and Justice - Criminal Division).

Then, the offense of human trafficking is similar to slavery offenses, article 209 of the Penal Code, submission to forced or compulsory labour, article 212 of the Penal Code and pimping, incriminated in article 213 of the Penal Code.

Examining these texts, it may be observed that there is no overlap in terms of incrimination modalities and purpose, so that they can be retained in competition, sometimes being an etiological connection between the above mentioned crimes, a deed being committed with the purpose of committing another (Florin Streteanu – Concursul de infracțiuni, Ed. Lumina Lex, Bucharest, 1999, page 97).

## 9. References

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2. See Noul Cod Penal , Noul Cod de procedură Penală , Ed. Hamangiu, Bucharest, 2014
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4. See Ion Ristea, Drept Penal – Partea Specială, Ed. Universul Juridic, Bucharest, 2014, page 132
5. See Ilie Pascu et al. – Noul Cod Penal Comentat – Partea Specială, 2<sup>nd</sup> Edition, Ed. Universul Juridic, Bucharest, 2014, page 126
6. See Noul Cod Penal, Noul Cod de procedură Penală, Ed. Hamangiu, Bucharest, 2014 and Alexandru Boroi, op. cit. page 132
7. See Ion Ristea, op. cit, page 134
8. See decision no. 1834 / 22.11.2006 of the High Court of Cassation and Justice - Criminal Division
9. See Florin Streteanu – Concursul de infracțiuni, Ed. Lumina Lex, Bucharest, 1999, page 97

## **Influence of Life Insurance on the Romanian Insurance Market**

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### **Abstract**

*Day by day we are confronted with economic reality that each of us face and calling attention to growing our future financial planning and the need for long-term savings. However, awareness of this need is only a necessary first step, continuous communication is essential benefits and role of life insurance in financial planning for the future.*

*The insurance sector usually and of the life insurance, in particular, is particularly important areas in any economic system, development of life insurance can have a particularly strong impact especially in economies in transition. More than this, it was shown that the economic impact of the life insurance act is accompanied by significant social effects.*

**Key words:** life insurance, insurance market, influence

**J.E.L. classification:** A, A1, A10

### **1. Introduction**

Insurance hold a special place in the specific functions they perform. A feature of the insured contracts is that they, especially some types of life insurance can be equally defenses against risks, but also effective tools for saving. This feature involves different approaches and requirements in terms of formulating and administering contracts covering life insurance. (Dumitraşcu, Moscu, 2013 ,p.106-113, Ch 5)

The Romanian life insurance, although far from being considered a market experienced and mature ranged in recent years in a recipe classical, less creative and adapted Romanian mentality, insurers have had to adapt to these financial conditions unfavorable last years. Thus, constrained by unstable financial environment, life insurers in Romania have relied successfully on reducing the complexity of products on one hand and on offering flexible and adapted to the demands products and customer needs, on the other hand.

The purpose of this article is to show as much as possible the life insurance sector in Romania is at a low level of development, low level of penetration of these complex financial products is evident in our country when international comparisons are made. Even though the gap with the situation in Western Europe and the Nordic countries is understandable historical reasons rather, obvious differences appear to countries in the region. In addition, intensity and persistence of the economic crisis led to contraction of the life insurance sector in Romania. Since the sector continued decline in recent years in this moment,, outlook on life insurance in Romania is rather bleak.

### **Life insurance market in Romania drag up or down?**

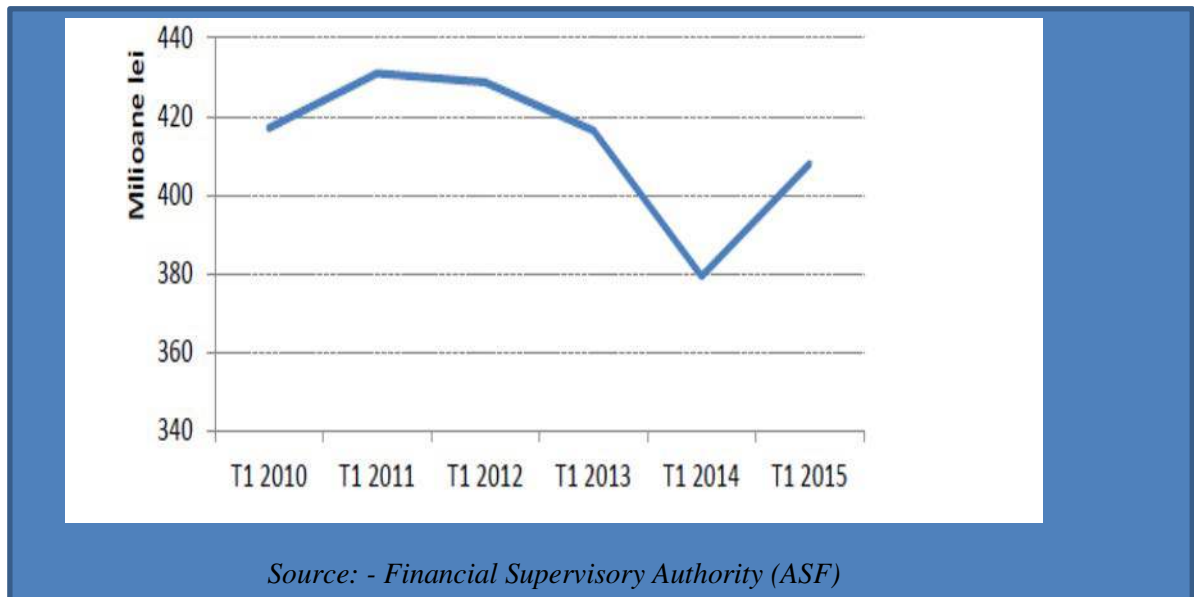
In 2015 the insurance market operates 36 insurance companies authorized in Romania so:

- 20 active general insurance companies,
- 8 companies with life insurance activity,
- 8 companies with composite activity

Also, a number of 10 insurance companies in the European Union operates its insurance subsidiaries in Romania, under the right of establishment. Competing insurance companies in Romania comes from insurance companies in the Member States that subscribe under the right of freedom to provide services. According to the last analyzes made 4.8% of gross written premiums in Romania were subscribed by companies in the Member States, under the right of establishment or freedom to provide services.

According to the data examined is noted that after a period of decline that has occurred since 2011 and continuing until 2014 including, in 2015 the volume of gross written premiums for life insurance have increased by 7.59%.[3] (ASF, 2015)

*Chart no. 1 The evolution of the volume of gross written premiums for life insurance*



After a period of decline which stood since 2011 (T1) and continuing to remarkable decrease until 2014 (Q1), 2015 (T1) as seen in the graph above the volume of gross written premiums for insurance life recorded an increase of 7.59%. According to data of this increase occurred amid a slight increase in the number of contracts outstanding at the end of the period (1.26% before 2014), and the number of new contracts signed (3.35%). (Competition Council, 2014)

In case of life insurance, all-round analysis, it is noted that the preferences of all users of insurance products were mainly by class 1 which includes life insurance, annuities and supplemental life assurance and class 3 which consists of insurance life and annuities related to investment funds.

Chart No. 2 Evolution of class structure life insurance



Source: - Financial Supervisory Authority (ASF)

The fact that results after the first half were basically "saved" life assurance demonstrates that although macroeconomic conditions have not followed trends expected early this year, Romanians have started to realize the importance of these products for protection and saving-investment term long. (ASF, 2015)

Also, another trend was noticeable since the second half of last year has increased in the first half of the year, paving the way to recovery by the life segment gap outlined in previous years, namely the decrease Termination policyholders and redemption value.

Thus, life insurance market managed to rise above expectations spectacular specialists also managed to influence positively the insurance market in Romania.

Although the insurance market in Romania is dominated by insurance, however, the share of life insurance and revolves around the 20% threshold, percentage care only about 0.3% of PIB. As might be concerned about the lack of maturity of the market but certainly the lack of deductibility for life insurance. More developed insurance industries have relatively equal weights between segments life and general insurance. Like the Czech share of life insurance in the total market is 46% in Poland to 54% in Hungary to 55%. In Bulgaria the share of life insurance is 18% while in Romania revolves around the threshold of 20%. (Competition Council, 2014)

But still, while Europeans spend 1,000 euros annually for life insurance, a novel allocated only 20 per year for these products and it is clear that this big difference can only be explained by the difference in living standards. It is therefore primarily by low education in the field and a low awareness of the importance of these products, which are points that players in the sector should focus in the future.

I think that informing customers about the need for financial protection to open more life insurance to the public, is a matter of national interest, not a step that should be done exclusively by specialized companies.

As another key reason is that the world has no money. People are afraid of losing their jobs is instability, many firms have restructured their limited staff numbers, people do not think about the long term, already have financial obligations through loans, increased energy costs, petrol and the economies declined. Another reason is that if they make early redemptions are some fees charged by insurers and then ignoring the protection many customers prefer to put money in the bank.

Assurance methods were developed with existing protection needs at a time for people and their businesses. Thus businessmen have agreed to use insurance to minimize the risks involved in trading transactions and those related to heritage protection. (Ionescu 2012, p.10)

Life insurances are part of our lives, but their visibility is not appropriate. From this point of view, it is believed that we are only starting to Romania. Life insurance is not only necessary, but also really useful.

## Conclusion

Since life insurance involves long-term contracts and touching sensitive topics purely personal (death, survival, savings, retirement), reputation is essential in this area, which is why we believe that consumer perception of the reputation insurers of life constitute a barrier to market entry.

Although initially seemed to be strongly affected by the economic crisis, life insurance managed to save the market dynamics and are seen increasingly more as a line of business with great opportunities for development.

The most immediate problem encountered by companies at the moment and also the most important challenge remains winning customer trust and finding new creative solutions geared strictly to the customer by the common man. So, to reach the best solutions are as simple information and reducing complexity and offering flexible products, permanently connected with the reality of customer needs.

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## The Need for the Dissemination of Statistical Data and Information

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### Abstract

*There is an emphasis nowadays on knowledge, so the access to information has increased in relevance in the modern economies which have developed their competitive advantage thorough their dynamic response to the market changes. The effort for transparency has increased tremendously within the last decades which have been also influenced by the weight that the digital support has provided. The need for the dissemination of statistical data and information has met new challenges in terms of aggregating the practices that both private and public organizations use in order to ensure the optimum access to the end users. The article stresses some key questions that can be introduced which ease the process of collection and presentation of the results subject to dissemination.*

**Key words:** statistical information, statistical data, dissemination

**J.E.L. classification:** G15

### 1. Introduction

In terms of the increased trading speed currently registered and of the fast transmission of the resulted information, one may observe the need to preserve the stability and certainty regarding the veracity and authenticity of data and information disseminated to users. (Statistics Canada, 2009)

Currently there are numerous ways of transmitting information by both electronic and physical means, the form of communication ranging from Internet publishing to faxing, press releases, speeches or public presentations. Certainly, these are just some of the forms most used by present day society, which have a significant impact both on the business environment and among consumers or governments, the need for the dissemination of statistical data and information in real time and in a way accessible to the target users being remarkable.

### 2. Information – fundamental instrument for statistics

Information is considered a fundamental tool both for the wellbeing of the individual and that of the community and, therefore, access to data and statistical information is often available to the public. This view was undertaken by a significant number of institutions charged with distributing statistics and thus it led to an increased distribution of data and statistical information available online, free of charge. Although this view has encountered certain difficulties of enforcement in countries where the dissemination of statistics is kept under strict and rigid control, everywhere a mentality of online presentation, of at least the titles or determinant trends in the economy, has taken root.

The dissemination policy is constantly changing and adapting. The last relevant debate, which is still of actuality, was meant to aggregate and centralize information in order to serve governments and international organizations. The Administrative Committee for Coordination, under the aegis of the United Nations, comprises the most relevant twenty-three international organizations dealing



with statistics, which are actively represented. These were assessed in terms of dissemination of relevant statistical data and information via the Internet. (Organization for Economic Co-operation and Development, 2002).

Their results are divided according to the access to information. Although many continue to offer free access, it is difficult to quantify the quantitative and / or qualitative value thus offered. Among those which follow a basic policy of distributing statistical data on the Internet should be mentioned (Organization for Economic Co-operation and Development, 2002): The International Labor Organization, the World Bank, UNESCO, the World Trade Organization and the United Nations Commission for Africa, Asia and the Pacific. Their role in promoting globalization is of immeasurable importance, tracking the geographical and occupational mobility of the factors of production, the main objective being represented by the workforce. All these appear on the background of an increase in wealth inequality between those with low incomes and those with high incomes. Twenty-five years ago, the average income available for those with a high income was seven times higher than for those having a low income (the report follows the 10% extremes at both ends). However, at present, this disparity has increased, reaching a 9.5 multiplication factor. (Keeley, December 2015). This leads to a series of stimulation and cooperation policies aimed at promoting the sustainable economic development of the parties involved.

Other institutions which stimulate the free access to information, although mostly limited to categories offered in specific locations, are Eurostat, the Economic Commission for Latin America and the Caribbean (ECLAC), and the Organization for Food and Agriculture sponsored by the United Nations (FAO). In addition, it may be noticed that a significant amount of free information is provided by UNICEF or the United Nations Statistics Division. Many, however, try to promote a payment system in order to gain access to a targeted segment of information. By paying a subscription for a limited period of time, one gains access to the databases specific to a field of interest, to institutions such as Eurostat, the International Labour Organization, the Food and Agriculture Organization, the World Tourism Organization, etc.

The reviewed studies and the reports of those meetings having a global impact indicate a general trend towards the promotion of the open access to information and they underline its relevance for regional and worldwide development. The dissemination of statistics via the Internet is quickly becoming a common policy for all economies in an effort to promote the most advanced techniques for an improved access to statistical data and information, as well as making the transmission of information more efficient. These policies of worldwide information dissemination have a direct impact on the national statistics institutes. They will be involved in joint actions of dissemination of statistics at regional and international level, the presence of the experts originating from each country granting the research a valuable relevance.

### **3. Transparency and confidentiality**

In general, the market tends to present a natural tension between transparency and confidentiality. However, the role of public institutions is to provide the stability and confidence with the objective of ensuring the efficient long-term economic development. The most common problems encountered in markets concerning this conflict of interests are reflected by the excessive reporting of some segments as opposed to the oscillating, uneven distribution of others. At global level, a form of "well chosen" abstraction is encouraged and this may serve as a significant public service if properly disseminated. (Flood, Katz & Ong, 2013)

Currently, there are computational tools which accurately formulate the confidentiality requirements, as well as the implementation technology, while also providing access to the necessary information. Thus, the tension between transparency and privacy may be reduced through practices which have a major impact in the markets. (Flood, Katz & Ong, 2013) Certainly, these are currently limited in terms of prerogatives and functions, but the extension of their application and their optimization so that they may be easily used in multiple markets is currently pursued. The difficulty to implement them is related to their adjustment in order to maximize transparency, as a feature of the public interest, but also, at the same time, minimizing the potential negative impact generated by the financial activity, protecting the innovation and research for the purpose undertaken. It is difficult to generate conclusions generally applicable in the market, but

the common idea resides in the existence of the extremes generated by excessive confidentiality or exaggerated transparency, whichever resulting in data and information wrongly disseminated in the market, losing their own meaning by the time they reach the end user.

Another relevant study (Fung, Graham, & Weil, 2008) reflects the importance of the proper implementation of transparency policies. Data and information management largely focuses on determining the amount of information that may become available and identifying the levels of access for various users. However, a new question in data collection is formulated concerning the means of data collection and presentation which may often influence the final outcome.

#### 4. Conclusions

Current research aims to identify new processes and technologies in order to reduce the asymmetry of information in the organizational process of the business environment. It identifies the importance of implementing a mandatory periodic presentation of the evolution of companies which may influence both the behavior of the consumers and of the producers in the market. It is believed that this access is essential for boosting industrial competitiveness, although sometimes the individual companies are at a disadvantage since they are required to disclose their acquired competitive advantage acquired in the market. Although universally enforceable regulations cannot be set into place, some key questions that have proven useful in improving the results obtained during the process of collection and presentation of the undertaken effort may be introduced:

- Who are the participants involved in the dissemination process?
- Are the limitations of the data and information to be shared in the market clearly determined?
- What data and information should be protected during the project implementation?

In the process of analyzing transparency in public institutions, it should be mentioned that these will vary from aiming to achieve a higher confidentiality of data and information processing to rendering the process available up to the point of making it vulnerable to misinterpretation or vulnerable to speculation (Bergman 2014). Thus, every initiative aimed at increasing transparency must be evaluated since it does not automatically result in an increase in well-being and, as such, a determining factor in the analysis should be for whom the access to information and data is increased and, certainly, under what conditions.

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## **Analyse of the Influence of Major Romanian Indices over the Number of Early Leavers from Education and Training**

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### **Abstract**

*The present paper result as a research with the main objective to analyse a possible influence correlation of three major country indices Gross Domestic Product at market prices (GDP), Main National Account (MAC) and Harmonised Index of Consumer Prices (HICP) over the Early Leavers from Education and Training (ELE). The method used is determination of mathematical functions that governance of ELE evolution based on each of the three indices values organised ascending order. Also, the functions are used for graphic representation in order to visual compare the degree of influence over the ELE. The software used was Mathcad 14 with data from 2000 to 2013.*

*The relevance of the research occurs from pointing out the hierarchy of influence over the ELE, considering that the country can act accordingly to minimize the early leavers from education and training.*

**Key words:** leavers from education, country economics

**J.E.L. classification:** H52

### **1. Introduction**

The level of education and training of a country illustrate several characteristics like the level of richness of the country, the ability of the governance of that country to ensure higher education for each of their inhabitant and not the least the guarantee of country's good future. One of the method of measurement for the wellbeing of education system is the size of the leavers from the education and training before the end of each their studies.

Considering these facts it is important to understand which of the main countries indices influence the most the decision of leaving the education in order for governments to effectively use the way manage the cause of that indices for the wellbeing of education and training as an engine for a better future.

The goal of the present paper is to reveal the first steps of a research that tries to determine the main country indices that influences the people to leave in early stages of their education or training.

The importance of the paper and the research rise from the importance of the education and training over the future of a country and the significance of the determination of a hierarchy of the country indices influence over the dropout from education.

### **2. Data analysis**

Data used represent the annual values of three country indices: Gross Domestic Product at market prices (GDP), Main National Account (MAC) and Harmonised Index of Consumer Prices (HICP) and the Early Leavers from Education and Training (ELE), collected from 2000 to 2013 for

Romania. Each of these indices are presented in the following. The values of the indices are presented in table no. 1.

*Table no. 1 Annual values of the analysed data.*

<b>YEAR</b>	<b>GDP at market prices [Purchasing Power Standard per inhabitant]</b>	<b>HICP (2015 = 100) [Annual average index]</b>	<b>Main national accounts tax aggregates [Million euro]</b>	<b>Early leavers from education and training [Percentage FROM Total Population (From 18 to 24 years)]</b>
2000	5.000	28,01	12.420,4	22,9
2001	5.500	37,66	13.098,8	21,7
2002	6.000	46,14	13.856,8	23,0
2003	6.500	53,18	14.794,4	22,5
2004	7.500	59,51	16.981,8	22,4
2005	8.000	64,90	22.722,1	20,3
2006	9.200	69,19	28.498,8	17,9
2007	10.700	72,58	37.161,0	17,3
2008	12.200	78,33	40.249,5	15,9
2009	11.700	82,70	32.485,7	16,6
2010	12.400	87,73	34.052,8	19,3
2011	12.900	92,84	37.403,8	18,1
2012	13.600	95,98	37.235,4	17,8
2013	13.900	99,04	39.532,7	17,3

*Source:* table drawn up by the authors based on data provided by EUROSTAT website

*Gross domestic product (GDP) at market prices* is the final outcome of the production process of inhabitant maker units. It is defined as the value of all goods and services created minus the value of any goods or services used in their making. This definition is elaborated by the Eurostat [3].

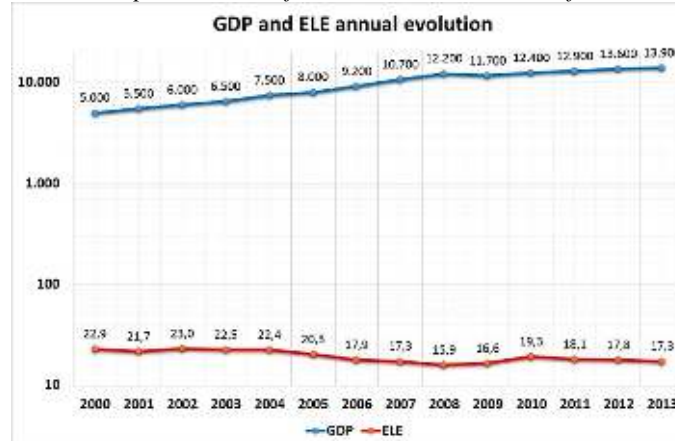
*Main national accounts tax aggregates [Million euro] (MAC)*, as defined by the Eurostat [1], is detailed tax and social contribution earnings by type of tax or social contribution and by sub-sector of general government, notified by national authorities.

*Harmonised indices of consumer prices (HICP) [Annual average index (2015 = 100)]* give similar measures of inflation for the states and state clusters they are produced. They are financial indicators that measure the variation over time of the prices of consumer goods and services attained by households, as defined by Eurostat [2].

Also Eurostat [4] defines the *Early leavers from education and training [Percentage FROM Total Population (From 18 to 24 years)]* as the percentage of the people aged 18 to 24 having accomplished at most lower secondary education and not being involved in additional education or training. The numerator of the index mentions to peoples aged 18 to 24 who meet the following conditions: (a) the highest level of education or training they have completed is ISCED 2011 level 0, 1 or 2 (ISCED 1997: 0, 1, 2 or 3C short) and (b) they have not acknowledged any education or training (i.e. neither formal nor non-formal) in the four weeks former to the survey.

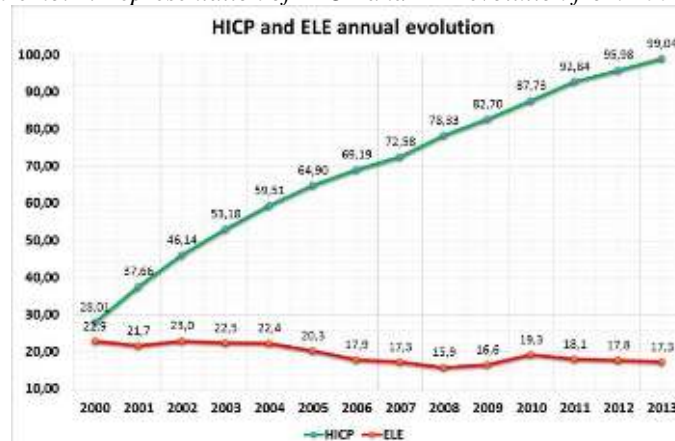
The first graphical analysis of the indices evolutions are presented in figures from 1 to 3.

Figure no. 1. Representation of GDP and ELE evolution from 2000 to 2013.



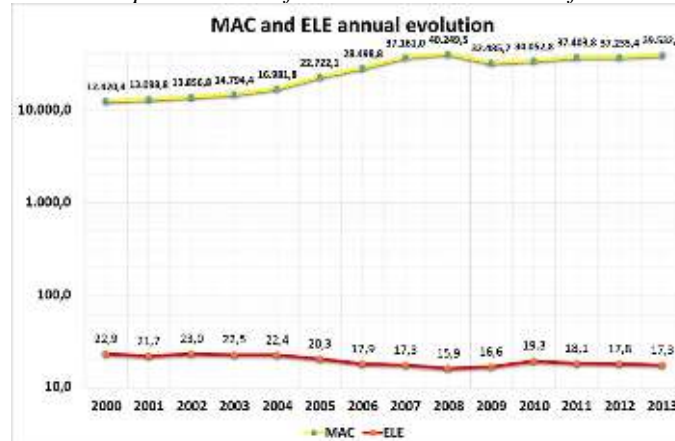
Source: Author’s own graphic representation.

Figure no. 2. Representation of HICP and ELE evolution from 2000 to 2013.



Source: Author’s own graphic representation.

Figure no. 3. Representation of MAC and ELE evolution from 2000 to 2013.



Source: Author’s own graphic representation.

- As the graphical representations reveals the following evolution of values:
- ELE has an inverse evolution than GDP, HICP and MAC;
  - The HICP trend growth is developing much faster than ELE trend;
  - The evolution trends for GDP and MAC is produced a year earlier than ELE, which demonstrates the influence of the two over the ELE.
- So the major conclusion of the initial data analysis is that there is an influence between the three

indices and the ELE. This conclusion is the base for the research that follows.

### 3. Application

In order to further analyse the influences between the indices the authors proposed to find mathematical function that rule the way that the values of each of the three country indices affects the trends of ELE (or the influence).

The authors used Mathcad 14 software to determine each of the function. For the mathematical process of function calculation the values of each of the three indices were reordered in ascending order, keeping the correlation with the ELE values or each year. After the mathematical process the following function were calculated:

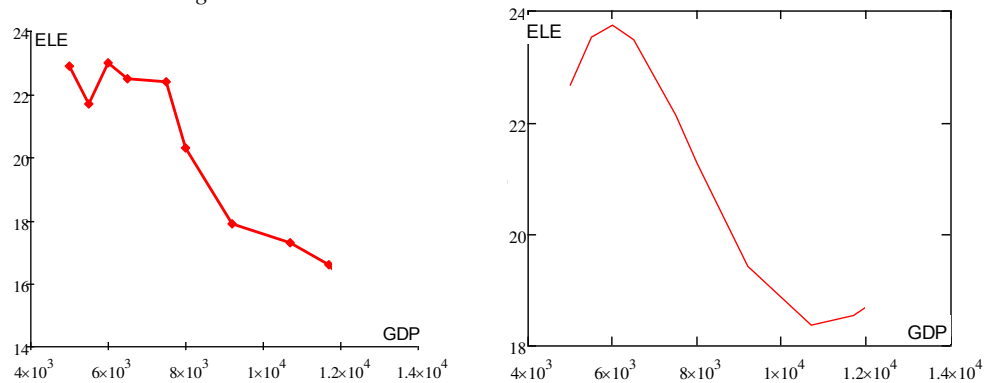
$$ELE(GDP) := -1.315 \times 10^{-14} \cdot GDP^4 + 5.319 \times 10^{-10} \cdot GDP^3 - 7.682 \times 10^{-6} \cdot GDP^2 + 0.046 \cdot GDP - 73.547 \quad (1)$$

$$ELE(HICP) := -1.847 \times 10^{-9} \cdot HICP^6 + 3.264 \times 10^{-7} \cdot HICP^5 + 1.231 \times 10^{-5} \cdot HICP^4 - 6.136 \times 10^{-3} \cdot HICP^3 + 0.483 \cdot HICP^2 - 15.181 \cdot HICP + 191.721 \quad (2)$$

$$ELE(MAC) := 6.1823 \cdot 10^{-25} \cdot MAC^6 - 1.08568 \cdot 10^{-19} \cdot MAC^5 + 7.53 \times 10^{-15} \cdot MAC^4 - 2.63 \times 10^{-10} \cdot MAC^3 + 4.86 \times 10^{-6} \cdot MAC^2 - 4.522 \cdot 10^{-2} \cdot MAC + 188.966 \quad (3)$$

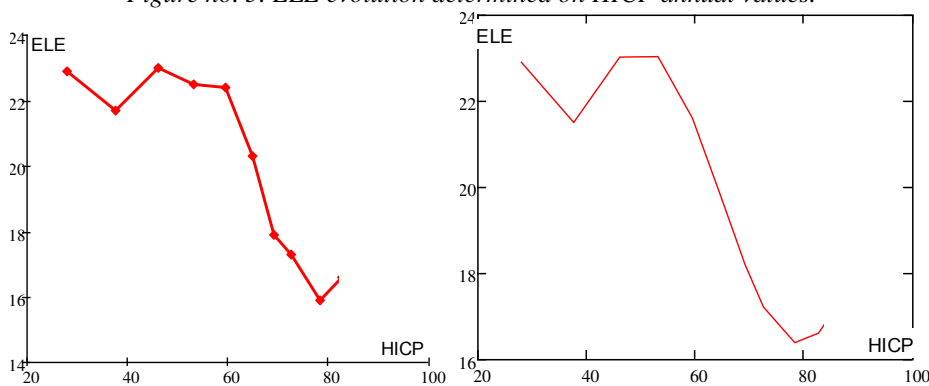
Using the above mathematical function graphical representation were elaborated. Those graphics were compared with the real graphics in order to evaluate the proximity with the mathematical models. In figures from 1 to 3 the graphics shows the graphics from the real data. The graphics from the right reveals the application of modelled mathematical functions and the calculated ELE's values for each of the three country indices.

Figure no. 4. ELE evolution determined on GDP annual values.



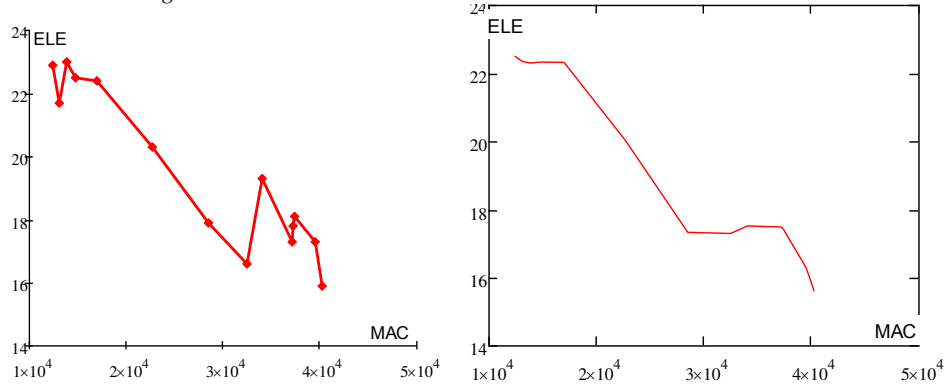
Source: Author's own graphic simulation representation.

Figure no. 5. ELE evolution determined on HICP annual values.



Source: Author's own graphic simulation representation.

Figure no.6. ELE evolution determined on MAC annual values.



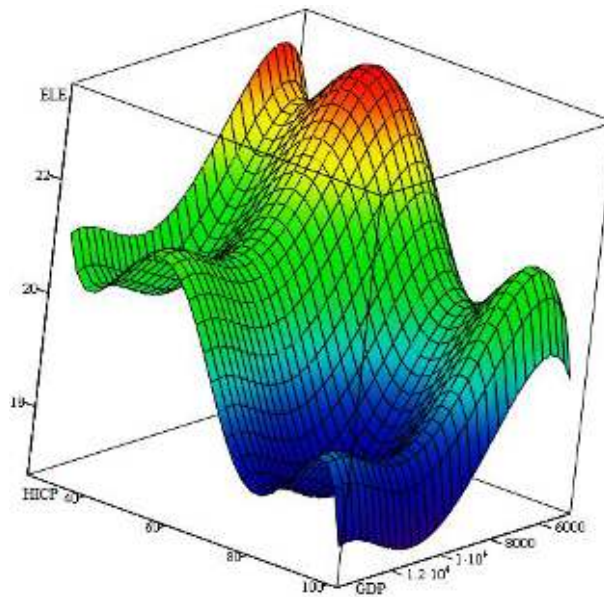
Source: Author’s own graphic simulation representation.

Evaluating the two graphic representation of the influence function for each of the indices it can be easily see that the representation are similar, therefore the authors considered the modelling a success.

The next step in research was to evaluate which of the indices has the most influence over the ELE. In order to achieve that the authors used 3D representation of the calculated function of influence and determined the surfaces that shows the values of influences over the ELE for each of the indices taken two by two.

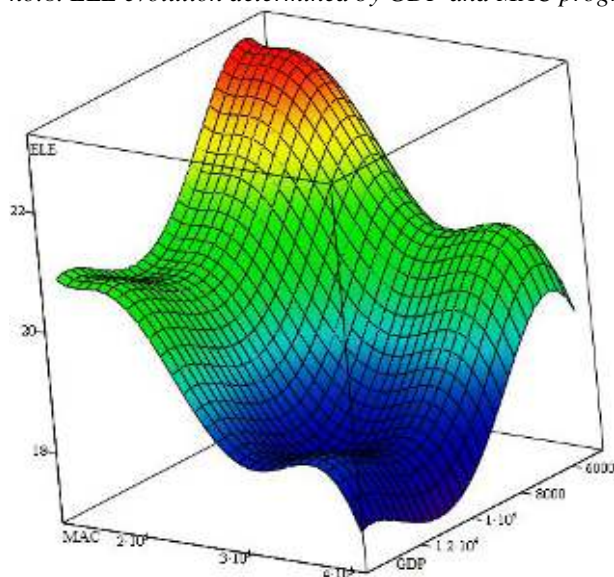
Each of the surfaces is represented in figures from 7 to 9.

Figure no.7. ELE evolution determined by GDP and HICP progression.



Source: Author’s own graphic simulation representation.

Figure no.8. ELE evolution determined by GDP and MAC progression.

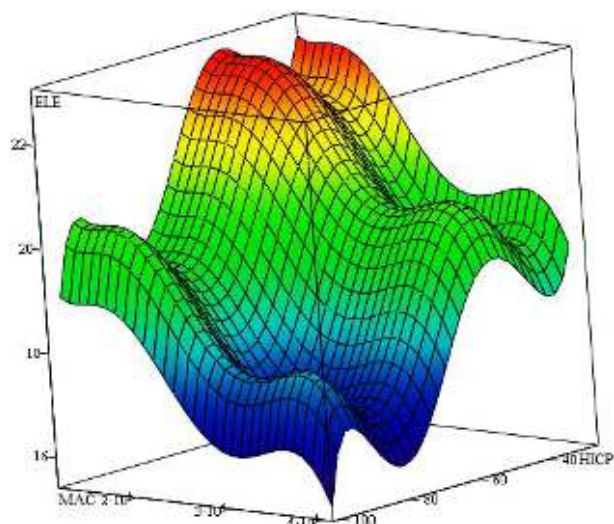


Source: Author's own graphic simulation representation.

Analysing the 7 to 9 figures the following conclusion were made:

- In figure 7 the ELE variation is more sudden under the influence of HICP than the influence of GDP;
- In figure 8 the ELE variation is more sudden under the influence of MAC than the influence of GDP;
- In figure 9 the ELE variation is more sudden under the influence of HICP than the influence of MAC, even the difference is small.

Figure no.9. ELE evolution determined by HICP and MAC progression.



Source: Author's own graphic simulation representation.

Considering this analysis the hierarchy of influences over Early Leavers from Education and Training are as follows: the most influential is Harmonised Index of Consumer Prices and the slightest influence belongs to the Gross domestic product. The Main national accounts tax aggregates is situated between them closer to the Consumer prices.



#### **4. Conclusion**

The authors consider that all the established objectives were achieved. With the help of mathematical modelling mathematical function were determined to reveal the way that indices Gross domestic product, Harmonised Index of Consumer Prices and Main national accounts tax aggregates influences the Early Leavers from Education and Training.

Also the authors determined the hierarchy of influence of the three indices over the ELE, confirming the speculation of authors from the beginning of the paper that the most important factor for leaving the education and training is the prices.

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2. [http://ec.europa.eu/eurostat/cache/metadata/EN/prc\\_hicp\\_esms\\_ro.htm](http://ec.europa.eu/eurostat/cache/metadata/EN/prc_hicp_esms_ro.htm)
3. <http://ec.europa.eu/eurostat/tgm/web/table/description.jsp>
4. [http://ec.europa.eu/eurostat/cache/metadata/en/edat1\\_esms.htm](http://ec.europa.eu/eurostat/cache/metadata/en/edat1_esms.htm)

## Hospitality Industry

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### Abstract

*Development of accommodation, as basic services offered to tourists, led to the creation of a genuine hospitality industry.*

*Currently, the hospitality industry is no longer just the accommodation service itself but also requires an atmosphere that ensures leisure tourists in the hotel.*

*Thus, hospitable unit manager offers its service in addition to accommodation and catering services, leisure services, treatment services, business services required..*

*The existence of factors such as revenue growth, increasing leisure time, the development of transport services, the emergence of new tourist attractions have caused increasing international flows of tourists, with consequent development of units hospitable, and therefore a strong hospitality industry.*

*In Romania, after 1990, the tourism sector experienced a true expansion, both through the development of the hotel sector, but also by developing rural hospitality units.*

**Key words:** hospitality industry, tourism, services, hospitality units, tourists.

**J.E.L. classification:** L80, L83

### 1. Introduction

Today, tourism plays an important role in the economy, with a significant contribution to growth.

Meeting the needs of tourists requires a set of services, such as transport, accommodation, food, leisure and entertainment and other services provided depending on the motivations of tourists.

Of these services, accommodation service is an essential service for tourism activity because without accommodation people moving from place of residence to the place for holidays would not have tourist status.

Accommodation involves satisfying the need for food and drink and recreation in and outside their hospitality units.

These services are aimed at meeting the needs of tourists' recreation and food, as well as the specific nutrition and recreational services that form the hospitality industry (Minciu, 2001,p.261).

### 2. Accommodation - basic service hospitality industry

Accommodation is the main service offered by the hospitality unit. Without accommodation service, hospitality unit did not exist.

But, the accommodation product consists of more than a room with a bed. A guest purchasing also receives other facilities and benefits, such as ambience, decor and security. While all hotels provide accommodation services for their guests, the type of facilities and benefits associated with that service can often differ greatly, even within the same hotel.

The accommodation product, therefore, does not just consist of a guest-room but also the additional facilities and services which are applicable to that room (Baker *et al*, 1996, p.29).

In this business the primary product is the guest-room and the service that goes toward making it a comfortable and attractive abode for the traveler (Podd *et al*, 1964, p.25).

The accommodation segment of the turism industry consists of many popular alternatives such

as bed and breakfasts, condominiums, timeshares, conference centers, hotels, and motels, as well as recreational vehicle parks and campgrounds (Cook *et al*, 2010, p.157).

Accommodation has certain characteristics that are specific functional departments that make any hospitality establishment.

The main characteristics are (Ene, 2004, p.178-180):

- Ensuring the security of life and property of passengers
- Absolute hygiene in establishments of tourist reception
- Operation of equipment located in accommodation spaces.

These features of the accommodation must be found in any tourist reception establishments such as hotels, motels, tourist boarding houses, tourist villas, tourist inns, hostels, bungalows, tourist chalets, holiday villages, camping sites, school and pre-school camps, tourist halting places, agro-tourist boarding houses, houselet-type units, shipo accommodation places.

Failure to comply with these characteristics negatively affect the accommodation service and therefore reducing occupancy hospitable unit.

Accommodation is an element of the wider hospitality sector that is used by tourists. Hospitality is the very essence of tourism, involving the consumption of food, drink and accommodation in an environment away from the normal home base. The very nature of hospitality involves hosting and hospitality, provided by a host and involving a guest (Page, 2011, p.152).

Hospitality is the friendly and generous reception and entertainment of guests or strangers (Pearsall, 1999, p.687).

In essence hospitality is made up two distinct services, the provision of overnight accommodation for people staying away from home, and the provision of sustenance for people eating away from home. Both of these services meet very basic human needs – the need to sleep and the need to eat (Jones, 2000, p.1).

Hospitality is very important in attracting tourists, it is a determining factor in choosing a touristic destination and a hospitable units.

The most important influence on the development of shelters and inns as businesses was improved transportation. As road systems developed and more people moved about the world, providing overnight accommodations and food became a viable business. The choices the hospitality industry offers are fascinating: they range from very simple to extravagantly plush, from road-side to mountain top, from city high-rise to jungle thatch roof, from full-service resorts to kitchenettes (Landry *et al*, 1994, p.134-135).

The hospitality industry is a service industry, and the management of a service institution is different. Food is a restaurant's product, but most of the manufacturing is done right in the place that offers the service (Powers *et al*, 1999, p.7).

Immaterial nature of these services makes it difficult assessment of the quality of accommodation and food service. These services provider are closely related person, so in the hospitality industry worker has an important role. The worker must be trained and required to provide hospitality, customer or tourist.

In hospitality, accommodation and food is provided in hotels, which have the highest share as a form of accommodation. Therefore, we use the term the hotel industry.

The hotel was born carrying with it a culture of hospitality. The hotel industry grew and flourished through the centuries by adapting to the changing social, business and economic environment that marked human progress (Vallen *et al*, 2009, p.4)

Accommodation is only one component of the hospitality sector, as following typology of establishments providing hospitality services (Page, 2009, p.255):

- Hotels
- Restaurants
- Cafes and catering places
- Night clubs and licensed clubs
- Take-away food bars
- Public houses
- Canteens
- Camping and caravanning sites

- Holiday camps
- Short-stay tourist accommodation

The tourist is important for the tourism industry as benefits from accommodation and catering in hotels or other hospitality units. Hoteliers are important for all customers because it offers accommodation not only tourists but also other people receiving accommodation but not tourist status.

Hoteliers have to offer the same hospitality to all.

The reasons that cause customers to turn to a hotel are (Stanciulescu *et al*, 2002, p.130):

- Specifics and the hotel's location
- Classification Category
- The image of the brand
- Structure services offered
- Prices
- Facilities granted
- Ambiance, comfort
- Attitude of staff

These reasons are important for hoteliers because it adapts its marketing policy hotel services.

### 3. Hospitality industry in Romania

In Romania, after 1990, the tourism industry and hospitality industry have recorded numerous trends under the influence of many factors.

Thus, the transition from socialist to market economy has generated profound transformations in this sector.

Switching tourism enterprises in state ownership to private ownership and free enterprise have led, on the one hand, increasing the number of units hospitable and the number of tourists, and on the other hand, economic and political instability have even affect tourist flows, particularly those international, in terms of reducing the number of foreign tourists.

Increased investment in the tourism sector has led increasing number of tourist accommodation structures with functions of tourist accommodation.

Evolution of establishments of tourists' reception with functions of tourists' accommodation in Romania is shown in Table 1.

*Table 1. Establishments of tourists' reception with functions of tourists' accommodation*

	2004	2010	2012	2014
Number of establishments				
TOTAL	3900	5222	5821	6130
Hotels	928	1246	1400	1473
Motels	149	151	206	212
Tourist inns	15	4	3	5
Hostels	31	114	178	204
Tourist villas	691	768	621	624
Bungalows	279	267	242	242
Tourist chalets	132	134	146	162
Holiday villages	2	4	6	9
Camping sites	72	51	48	52
School and pre-school camps	157	92	70	62
Tourist halting places	25	32	39	35
Tourist boarding houses	461	949	1247	1323
Agro-tourist boarding houses	892	1354	1569	1665
Houselet-type units	53	49	36	53
Ship accommodation places	13	7	10	9

Sources: (National Institute of Statistics, 2007, p.15), (National Institute of Statistics, 2013, p.22), (National Institute of Statistics, 2015, p.22).

According to the data in Table 1 structures tourist accommodation in the period 2004-2014 increased by 57%.

This increase is due to the facilities granted for investments in tourism, but also due to the increasing number of boarding houses.

Observe that the number of hotels increased from 928 to 1473, representing an increase of 58.7%.

Observe that by 2010 there were more developed tourist boarding houses, an increase of over 86% in 2014 compared with 2004. This is due to increased investment for businesses of familiar type.

The increasing demand for hospitality services in rural areas and the existence of specific natural resources of rural areas in Romania has increased the number of rural locations (86.7% in 2014 compared to 2004).

Use of natural resources, traditions and hospitality offered by hosts rural prompted increasing accommodation capacity in rural areas and thus increase the number of tourists accommodated in these units hospitable.

*Table 2. Existing accommodation capacity (number of beds)*

	2004	2010	2012	2014
Number of beds				
TOTAL	275941	311694	301109	311288
Hotels	160370	185521	181702	186236
Motels	5992	6126	8078	7883
Tourist inns	385	97	81	143
Hostels	1180	5218	7562	9116
Tourist villas	16107	16822	14775	13812
Bungalows	4854	4565	2663	2722
Tourist chalets	6215	5667	5150	5128
Holiday villages	56	157	352	717
Camping sites	26894	25358	12816	12925
School and pre-school camps	30198	16874	10908	9759
Tourist halting places	1226	2043	1847	2209
Tourist boarding houses	8100	18422	25019	27295
Agro-tourist boarding houses	9405	20208	27453	30480
Houselet-type units	4365	4164	2199	2398
Ship accommodation places	594	456	504	465

Sources: (National Institute of Statistics, 2007, p.16), (National Institute of Statistics, 2013, p.22), (National Institute of Statistics, 2015, p.22).

Analyzing data from Table 2, we see that the highest share in the number of beds can be found in hotels. The number of beds in hotels, relative to the total, increased from 58.11% in 2004 to 59.82% in 2014.

Demand for rural tourism and agro-tourism generated increasing the number of beds in agro-tourist boarding houses of 3.24 times in 2014, compared to 2004.

It is noticed that the hospitality industry in Romania is represented by a variety of forms of hospitality units, which is an advantage for tourists.

#### 4. Conclusion

For the tourism industry, the hospitality industry has a special importance as accommodation, food and leisure services that constitute a major contribution to meeting the needs of tourists.

Establishments of tourist reception with functions of tourist accommodation are very important because, provision of accommodation is closely linked to specific material-technical base of the industry.

In Romania, the numerical increase hospitable units is an important factor in meeting the needs of tourists depending on their preferences.

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# Corruption as a Governance Challenge and the Role of Civil Society

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## Abstract

*A first step towards a sustainable anti-corruption policy is to view corrupt practices as symptoms of a deeper problem in the relationship between state and society in general and in the function of democratic institutions in particular. These considerations bring us closer to conceptualising an anti-corruption strategy as an axis of a systematic reform policy towards social accountability. To implement effective strategies we need to pursue a more focused anti-corruption policies and to get away from a conventional minimalist approach of combating the phenomenon, mainly by choosing broader perspectives with the emphasis on accountability and the role of civil society in the consolidation of good governance. In this context, anti-corruption policy is a policy of accountability towards protecting human rights and in relation to any kind of development. Accountability supports good governance as is a co-creator of the active citizens' participation in a (transparent) decision making process.*

**Key words:** corruption, governance, NGOs, civil society, economic development

**J.E.L. classification:** E26, H2, H26, K34, L3, N4, O1

## 1. Governance as a Geopolitical Factor

The events of the past five years, and particularly those of 2011 acted undoubtedly as reminder of the destructive effect of corruption, both in political and in economic terms. In India mass protests persuaded the government to promote legislation to combat corruption and the results of the last elections marked the change of the political landscape after decades. In North Africa the uprisings, which together were called as the "Arab Spring" forced the withdrawal of leaders and government figures who were in power for decades. The results with the possible exception of Tunisia are highly disappointing. Before the Arab Spring, the exclusion of civil society has been one of the most serious reasons for the burgeoning nepotism and patronage. Such institutional problems will not disappear by themselves. In Europe, the sovereign public debt crisis that dismantled Greece still lasts. Other causes of the crisis go back to the deficits of the financial systems' regulation resulting a loss of more than 80 million jobs, which are needed in order to return to pre-crisis levels of employment. What we have seen in North Africa was extreme, but indicative of the magnitude of the consequences governments that do not put barriers to corruption face. When they are denied of their basic rights, we do not offer them security, we let corruption prevail and bribery evolve to an informal taxation, when there is widespread impunity and finally when the feeling of injustice chokes, people will eventually protest. The challenge concerns the ability of governments to meet the requirements of citizens and to recover of public confidence in governance and public administration. According to such a perception of good governance (UNESCAP 2006:1), citizens have an enforceable right to take part in governance and have access to public services of good quality.

Civil society can exert great pressure calling for changes that comply with the states' international obligations while poor governance disrupts markets and destabilizes societies. Although civil society presents itself as the vehicle for resolving issues of democratic principles and humanitarian values, human rights, ecological sustainability, economic development, racial discrimination, energy, etc. such an expectation is currently rather excessive considering its dynamics on national and global level.

## **2. The concept of civil society**

Civil society constitutes only one dimension of triadic socio-economic structure comprising by the broader "civil" society, the state and the market. In a stable democracy these three factors operating in a balanced interdependency, sometimes in a conflict situation and, sometimes in harmony, but always in some kind of equilibrium that is subject to the rule of law; and by that always presupposing the existence of the factor that has a "monopoly of the legitimate use of force." Such a factor does not exist of course at the international level. Never the less this equilibrium between civil society, state and market supervising the excesses of the others, attributes the importance of the overall role of civil society.

Ernst Gellner formulates a useful working definition of civil society as the sum of the various different non-governmental organizations that is strong enough to counterbalance the state without preventing it from fulfilling its role as the guardian of order and peace and as the arbitrator between big interests, but simultaneously preventing it from dominating and personalizing the rest of society (Gellner 1994). A strong but organically integrated civil society can be considered according to Paine as the best defense against the tendency towards corruption inherent even to the smallest state in his function as "guardian" (Powell, 2007). In an effort to determine of the appropriate state-civil society mixture by de Tocqueville, we read that a strong civil society based on pluralistic voluntary associations, when combined with strong local governance, separation of powers, electoral processes and in any case vigilance are the most basic barriers to despotism (Woldring 1998).

Although the concept of the civil society becomes particularly attractive, especially after clashes with absolutist regimes around the world, civil society nevertheless retains a rather controversial position within the modern liberal democracy. Some present civil society as rather unnecessary given the West's achievements to solve inefficiencies and injustice in our societies. For others there is absolutely no sense for its existence given the complex structure of modern societies. In any case, the existence and activation of civil society demonstrates that even in the Western world there is a field, which is threatened by the logic of the administrative and financial mechanisms, while providing an ideal platform for the expansion of democracy in terms of "existing liberal" regimes. Consequently the interface of the concept of civil society with every type of modern societies is undeniable and we should be deceived and connect civil society by definition in a contradictory relationship with the state and the economy. A competitive relationship with the state or the economy arises when mediation fails or when the political and economic institutions isolate the decision-making mechanisms from the influence of social organizations, initiatives and the various forms of public consultation.

## **3. Corruption, a barrier to development and justice**

The fact that corruption emerged as a core policy concern in the post-Cold War era and was seen primarily as something that was endemic in former Communist states and the developing world (Pande/Olke, 2012) and that this has contributed to its being carelessly conceptualised. Corruption in the sense of unlawful, precarious or abusive governance at local, regional and national level, is developed in various countries, especially those with higher poverty indicators, and particular in those countries ruled by absolutist regimes. The accumulation of economic privileges by the ruling classes, nepotism, corruption, misappropriation of state property and the diversion of part of it to private accounts or investments were some of the abuses that prevailed for decades in the political management of dictators. But alongside systemic corruption, other corrupt practices were developed in specific sectors or private groups. Some of these abuses fall under the general criminal law, such as those like the mafia networks which being supported by corruption and violence, tend to create a parallel societal structures to the legal institutional framework.

Corruption looks very widespread throughout the world, as evidenced in the annual study of the NGO Transparency International (TI, 2015). The effectiveness of legislation against corruption itself has been in some countries hampered by the very practices of bribery and of political control. The problem of corruption extends to various fields, both public and private life, with an impact on



the quality of life and resulting loss of rights, discrimination against groups of the population or the deprivation of legal access to jobs, to information or to representation and to the depletion of resources due to corruption. Meanwhile, beyond opacity of companies' accounts, media control and judicial corruption, the public sector lacks transparency especially regarding public resources allocation and procurement by public administration and political parties. The ultimate goal of public procurement is to spend public money in an efficient and proper manner to achieve best value for money. Given the economic significance of public procurement in the EU, corruption in this field dramatically harms the economy and public finances – both national and EU money.

Finally the scarce resources for justice (or rather their misuse or misappropriation) have been identified as an aggravating factor that prevents the minimum conditions of dignity in prisons, contributing to increased criminality. Although, to date the policies to combat economic crime are primarily related to the protection of the economy and the legitimate financial system, combating modern expressions of economic crime is nowadays directly related to universal problems, such as environmental protection and global poverty.

#### **4. Corruption as a Global Challenge**

Corruption has always existed, but concerted international focus really only began in the early 1990s, (Heywood, 1997) when the presumption was that liberal democracy has prevailed. In this scenario, privatisation and deregulation were the key policy prescriptions that would drive the post-Communist world towards the "good governance" model that reigned in the West and would thereby control corruption. Beyond good governance, this development is also the result of the intensity of financial globalization and of cross-border flows of investment capital and the common assumption is that corruption is one of the greatest threats to economic development.

The Bretton Woods organizations lead by the World Bank and the International Monetary Fund raised the issue to a global priority (Kaufmann et al. 1999). The seeming self-evidence of the superiority of the post cold-war Western model was reinforced by the first systematic attempts to measure corruption, a side effect of a growing obsession with ranking the world (Cooley/Snyder, 2015). In particular, Transparency International's Corruption Perceptions Index (TI 2015) and the World Bank's Worldwide Governance Indicators (W.G.I.) project to measure corruption by its governance indicators (World Bank, 2016), showed a clear correlation between high levels of socio-political and economic development and low levels of corruption.

Contrary to some views, the corruption problem concerns both developed and developing countries. We perceive corruption as the abuse of public office for personal gain, with a focus on the public sector and for the treatment of which is necessary to develop effective strategies. Never the less corruption encompasses a vast array of different kinds of activity, only some of which involve bribery. Such a wide range of behaviors presents for the formulation of a definition serious problems. They range from highly sophisticated transnational networks linked to criminal gangs and drug trafficking involving billions of dollars to small-scale abuses at a local level involving just a few individuals. Thus, the very idea that these types of activity – and everything in between – can be captured in any single measure is actually not realistic. And yet that is precisely the concept of the global anti-corruption campaign since the early 1990s. But in reality such correlations mask political choices. In particular, they rely on a very basic notion of corruption understood as being really about bribe-paying in the developing and underdeveloped world. In short, corruption was primarily a problem found in other (rather exotic) countries, not well-run democracies – even if Western companies had to pay bribes to prosper. And it was this understanding of corruption being about bribes that motivated the international financial community and the policymakers they sought to influence.

As a result of this kind of "problematization" of corruption there has been a generalized preoccupation and regulatory hyperactivity of the universal and regional international organizations e.g. Organisation of American States (OAS) Inter-American Convention Against Corruption 1996, Organisation for Economic Cooperation and Development (OECD) Convention on Combating Bribery on Foreign Public Officials in International Business Transactions 1997, Convention on the Fight Against Corruption involving Officials of the European Union (EU) Communities or Officials of the Member States of the European Union 1999, Council of Europe (COE) Criminal

Law Convention on Corruption 1999, Southern African Development (SADC) Protocol against Corruption 2001, African Union (AU) Convention on Preventing and Combating Corruption 2001, United Nations (UN) Convention Against Corruption 2003, Council of Europe (CoE) Additional Protocol to the Criminal Law Convention on Corruption 2003, which led to the conclusion of regional and global International conventions, a significant part of which has not come yet into force. Based on these legislative instruments, the international legal regime to combat corruption is characterized by the pursuance of a unified approach to corruption and to combating corruption and of legal and technical processing of corruption-related crimes. Additionally the most recent Conventions, adopting a new qualitative intensity and granularity, criminalize certain behaviors and rather limiting the punitive field. The creativity that characterizes such processes, they proved till now to have a suspensive effect to the operability of the international anti-corruption regulatory arsenal. This finding relates to both the lack of concerted enforcement mechanisms and the adoption of procedures and methodologies for the reintegration of problematic countries to the international community and for the creation of a new culture against corruption through education and open dialogue in the society.

Despite the fact that the approach towards corruption varies from country to country depending on the political culture and the political, economic and social balances, the research analysis has till today focused on measuring and combating corruption in individual states rather than internationally or globally. Hence, various initiatives – from development aid measures to membership of the European Union – have increasingly been made conditional on anti-corruption efforts at state level. These have usually come in the form of a tool-kit and a draft national strategy (UNDOC, 2015), the creation of dedicated agencies, or other internationally endorsed measures. They have often entailed an implicit belief that there is a “correct” way to tackle corruption, based on adopting a specific national governance model.

In some countries corruption constitutes a regular “shadow” income of the political parties. Funding of political parties in the US, is legal if declared and consequently deducted from the income of natural and legal persons is considered in other countries as corruption. In terms of such things as ensuring the rule of law, promoting ethical standards for public officials, having clear guidelines for investigation and prosecution and so forth, a national-level approach makes perfect sense (Tanzi 2002). But even in cases where there is no evidence that has been anything illegal according to national legislation, there are leaks of documents that comprehensively reveal corruption that involves billions of dollars being stolen and diverted from other countries – relies precisely on transnational operations that are near impossible for individual states to address on their own.

The World Bank refers mainly to public sector corruption: "Abuse of public power for private gain" ignoring the refraction of corruption in small and large companies of the private sector (Ofusu-Amaah WP et al., 1999). On the other hand, in many cases, public authority abuse is not about narrow private interest but aims to serve interests of friends, colleagues, political parties or interest groups. One more brief definition comes from the International NGO "Transparency International": «exploitation of interested (public) authority for private gain" (TI 2015). The Anti-Corruption Task Force of the International Economic Organizations (World Bank, International Monetary Fund, African Development Bank, Asian Development Bank, the European Investment Bank and European Bank for Reconstruction and Development) defines the Uniform Framework for Preventing and Combating Fraud and Corruption) 17th September 2006 corruption as “offering, allotment, acceptance, seeking directly or indirectly anything of value in order to unlawfully influence certain acts”. The United Nations Convention against Corruption (UNCAC) (Articles 15-22) contains the definition of corruption: “active and passive bribery of domestic or foreign public officials and officials of international organizations, misuse or diversion of public property by a public official, to influence or illegal enrichment by public officials and bribery and abuse in the private sector”.

## **5. Fighting Corruption and the role of Civil Society**

Corruption is a phenomenon characteristic of communicating vessels in which in the developed countries corruption is associated with poor performance of institutions and the grand frauds, while

in the developing countries by discouraging foreign investment, the disorientation of financial resources, the reduction in funding necessary infrastructure thus reducing the economic growth and enduring poverty.

Despite the temporal and cross-border presence, corruption as a form of economic crime is particularly acute and widespread in countries where either the State controls a large proportion of the economy controlling the allocation of financial resources, or there are weak or non functional administration mechanisms and financial crime fighting mechanisms or corruption is widespread in the transactions providing public goods such as health, education and security, enjoying accordingly social acceptance or at least tolerance. These factors contribute to the expansion and consolidation of corruption in all economies but are rather frequently encountered in those countries, which have the characteristics of developing or underdeveloped economies (Tanzi 2002). However, the finding that the increase and harmonization of the level of development between different countries does not entail a proportional reduction of corruption a development indicative of the complexity of the phenomenon and its particular sociological dimension (Tanzi, 2005, p. 49).

Indeed, beyond its economic dimension, corruption is directly connected with the ability of civil society in imposing good governance in the sense of at least six of the World Bank's evaluation criteria: (a) the right to speak and accountability, (b) political stability, (c) government effectiveness, (d) quality regulatory framework and regulations, (e) State law and (f) control of corruption. Nevertheless, the fight against corruption is impossible when limited to the public sector; the anti-corruption measures in the private sector include the identification of those who distort fair competition and annul the efforts for embedding a tax compliance culture.

The United Nations Convention against Corruption (UNCAC) recognizes the role of civil society in combating corruption under its Article 13, by calling on governments to increase transparency, improve public access to information, as well as to promote public contribution to government decision-making processes. United Nations Office on Drugs and Crime (UNODC) also supports civil society organisations' engagement in intergovernmental meetings and provides the necessary tools for them to work constructively with their governments and the private sector on UNCAC implementation. An examination of the key development characteristics of the civil society gives some explanation for the failure of its development in a number of countries: a) a generally established respect for the rule of law and the belief of the protection of the legitimate rights of citizens whenever the need arises, b) an expressed respect of citizens to the concept of the common good and the value of public goods and c) preparedness among citizens to form voluntary organizations, particularly in the public interest. Consequently and in light of these elements is effective governance, respect for the rule of law and the public opinion is a prerequisite and a consequence. What are the prospects for improvement? Rather small but existent.

## 6. Conclusion

Academic researchers and the advocacy community have been unwittingly complicit in perpetuating this mismatch between the reality of how corruption functions and the efforts to combat it. Much of the huge outpouring of academic literature on corruption in the past two decades, particularly that by economists (Mauro, 1995), has used a poorly specified concept of corruption to supposedly explain a host of specific failings – and most especially why there is more or less corruption comparably in different countries (Svensson 2005).

In turn, the advocacy community has similarly tended to rely on aggregate measures of corruption, both to make a political point about the threat and to secure resources in order to face it. By talking in such generic terms, though, neither academics nor advocates are likely to make much headway. We could argue to stop focusing on corruption as a "Gozila phenomenon". Instead, whenever the word is mentioned, we should ask what kind of corruption it is, where is it taking place, who is involved, what are their motivations, who or what is needed to allow it to take place, what level does it operate at, what sectors are implicated and how does it relate to the broader social context? Without clear answers to these kinds of questions, it will remain difficult to develop practical means of intervention that have an impact on actual corrupt practices – as opposed to generic observations about which nation is more corrupt than other.

How does civil society affect corruption and in general to what extent it affects a country's political system under crisis? The role of civil society fighting corruption as a crime and instability concerns overall the debate on whether and how the involvement in NGOs or similar organizations offer or not support to the political system. Such a prospect is real, even if they will expect less: that in countries in the midst of deep crisis, social conflicts and weak government mechanisms. This goes a long way even in groups with strong anti-government mood. Although the participation of NGOs can be one abstained disposal criticism and an attitude of protest against government policies participation reflects a high level of general systemic support, particularly in liberal democracies. Although the public debt crisis that a lot of countries face – and particularly Greece – is deconstructing significant number of institutions, it may be seen as a unique opportunity to fundamentally rebuild them.

The economic reconstruction and development of the country can't be achieved without the consolidation of core institutions and in that sense civil society can and must play a decisive role. This has to do primarily to the establishment and implementation of national and inter-governmental anti-corruption tools a) assuming the role of the server information from the people in the government for the development of a strategy, b) allowing the engagement of citizens and businesses in actions against corruption and c) maintaining the pressure for a systematic and coherent policy to combat corruption through the implementation of transparency and accountability mechanisms, d) controlling and indicating failures suggesting measures.

Participation and effectiveness of civil society in fighting corruption can prove to be the testing ground for its future involvement in all the relevant public national and international issues. Arguably the current potential and the urgency of the contribution of civil society in the anti-corruption campaign constitute simultaneously its limits. Governments continue to bear the burden of responsibility of power-management entrusted to them by the citizens.

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## **Banks’ Influence, through Tailor Made Services Offered to Tourists, on Encouraging International Transit: High-Tech Tourism of the 20th Century**

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### **Abstract**

*In addition to basic indicators which determine the level of tourism at national and worldwide level, the alternative methods stand out increasingly more, helping to a deeper understanding of travel preferences that people have. When deciding whether to be a tourist or not, what matter are both the intrinsic motivation and environmental factors created particularly to facilitate the respective journey. Commercial banks in Romania have understood that, in order to survive in a competitive environment (over 35 commercial banks are sharing the same market), they must adapt to customer needs and be receptive to partnerships with other industries. Thus, they launched various types of cards with facilities for persons who travel and, by intense promotion, the banks urge other customers to become tourists. Considering these assumptions, the current paper analyzes quantitatively the transactions at ATMs abroad and the number of Romanian outgoing tourists (people residing in Romania).*

**Key words:** tourism, international tourism, bank services, debit card, ATM transactions

**J.E.L. classification:** L83, G21, Z32, O14

### **Introduction**

“The spectacular evolution of tourism in the national economy and worldwide occurs under a complex system of factors, differentiated among them by nature, style and participation in different proportions in time and space. Their mutual intercorelation and their simultaneous action enhance the final effect, quantifying the contribution of each one being a difficult problem.” Ilie and Constantin Nita (2008, pg. 29) divide the tourism drivers system in four categories:

- by the nature of factors (economic, demographic, social, political, psychological and technical);
- by their importance in influencing tourism (primary and secondary);
- by the duration of their action (permanent and circumstantial);
- depending on the basic components of the market (demand and supply of touristic services).

Tourism is an essential activity in the life of nations and its development is linked to freedom of travel - a fundamental human right (Charter of Rights in Tourism and Tourist Code, 1985).

Recent decades evolution of the global economy has been characterized (Goeldner and Ritchie, 2011) by the amplification and diversification of international trade following the development and individual specialization of countries. Consequently, the economic relations between states have changed, mainly because of technological evolution. The main operations of new trade (Dumitru, 2007) are tourism and international transport services, insurance, banking operations and IT.

International tourism is part of the trade with services (Vanhove, 2005, p.113), and includes all tourist activities, who leave their country of residence for a certain period of time in order to visit tourist destinations; therefore international tourism plays an important role in terms of increasing

and diversifying the exports, supported by the variety of products and services to which travelers have access.

The factors defining the touristic offer are: cost, diversification and quality of services offered to its clients.

In the current study, the focus is on two of the three tourist demand factors which are: population dynamics, its revenues and free time available. Population dynamics will be highlighted by analyzing the number of trips abroad of persons residing in Romania. Regarding the second factor, i.e. the population income, the expenditure made by Romanians abroad will be analyzed. Total money spent is given by the total cash withdrawals made at ATMs (Automated Teller Machine) ([www.businessdictionary.com](http://www.businessdictionary.com)) abroad with bank cards issued in Romania.

According to the top of commercial banks operating in the Romanian market, conducted according to their market share, top ten local banks account for almost 80% of the total assets (Botea, 2015).

### 1. Analysis of transactions at ATMs abroad with bank cards issued in Romania

Apart from a qualitative analysis of services that are available to cardholding tourists and their companions, a nationwide quantitative analysis of the number of cards, transactions abroad and their values is needed, as well.

The present research was undertaken based on the information about cards and banking transactions published in the NBR (National Bank of Romania) reports for 29 quarters, since 2008 until March 2015 ([www.bnr.ro](http://www.bnr.ro)). The number of new cards (including co-branded and with e-money function) issued in each quarter was taken into account, the number of transactions for cash withdrawals at ATMs abroad with cards issued in the country and the total value of such transactions. Based on the above mentioned, the data in the last column of Table 1 were derived, representing the average value of the amount of money withdrawn at each transaction by the card user. The starting point was represented by the fact that the number of new cards issued each year accounts for the transaction needs of customers / tourists, both in Romania and abroad.

The figures showing the number of outflows from Romania during 2008 - 2014 were taken from the reports of National Institute of Statistics in Romania ([www.insse.ro](http://www.insse.ro)). Because only exits are accounted for at the borders, not how many times a certain person leaves the country, it is possible that some Romanian citizens travel abroad several times a year, resulting in the total number of outflows to be higher than the total number of Romanians (individuals) exiting at least once the country. This issue does not affect the research, because the same situation appears when analyzing the transactions: the total number of transactions is considered, not the number of cards with which at least one cash withdrawal was made abroad.

In Table 1, it is easy to notice the extremes in terms of number of new cards issued in the market. Thus, the largest number of new cards issued by banking institutions in Romania was 5,224,181 in 2011. In contrast, the lowest number of new cards issued by banking institutions in Romania was only 2,420,902 in 2009. Although there is a difference of 2,803,279 cards between these extremes, i.e. an increase with 115.80%, the number of transactions made at ATMs abroad recorded a not so huge gap. Based on this, it can be concluded that more Romanians have realized the need to use the bank card abroad at the expense of foreign exchange in cash, and have gained confidence in the services offered by banks.

Table 1: Transactions performed by cardholders at ATMs abroad (cards issued in Romania)

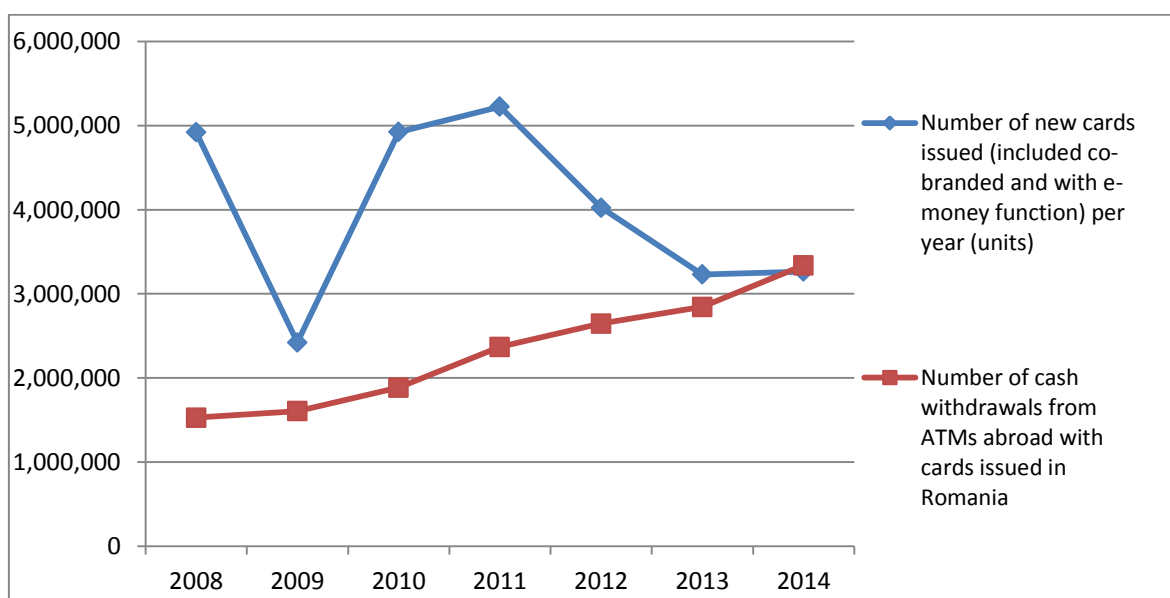
Year	Number of new cards issued (included co-branded and with e-money function) per year	Number of cash withdrawals from ATMs abroad with cards issued in Romania	Value of cash withdrawals from ATMs abroad with cards issued in Romania	Average value of cash withdrawals from ATMs abroad
	(units)		(lei)	(lei per transaction)
2008	4,921,350	1,526,611	1,094,826,450	717

<b>2009</b>	2,420,902	1,604,494	1,163,766,907	725
<b>2010</b>	4,925,151	1,885,772	1,378,320,768	731
<b>2011</b>	5,224,181	2,367,732	1,742,919,616	736
<b>2012</b>	4,024,260	2,646,663	2,088,543,397	789
<b>2013</b>	3,231,120	2,845,236	2,246,899,525	790
<b>2014</b>	3,265,802	3,339,810	2,678,079,017	802
				<b>756</b>

Source: realized by authors, based on data provided by NBR

According to the calculations afferent to seven years analyzed, the conclusion is that around 756 lei per transaction have been withdrawn from foreign ATMs, amounting to a total of 12,393,355,680 lei.

Chart 1: Comparative fluctuation of the number of new cards issued in Romania and the number of transactions conducted at ATMs abroad



Source: realized by authors, based on data provided by NBR

Analyzing Chart 1, it is noted the upward trend of card transactions carried out abroad, even if banks are issuing fewer and fewer new cards. The situation is explained considering that most people already possess a bank card, which they are already using for several years.

## 2. A parallel between the number of journeys made by Romanians abroad and the number of cash withdrawals from ATMs abroad

Even if the beginning of the global economic crisis occurred in 2008, the figures presented in Table 2 show that the highest number of outflows from Romania was recorded during that year. The effect of the crisis reached the borders only two years later, in 2010, when the number of outflows dropped by 16.58% versus the number registered in 2008.

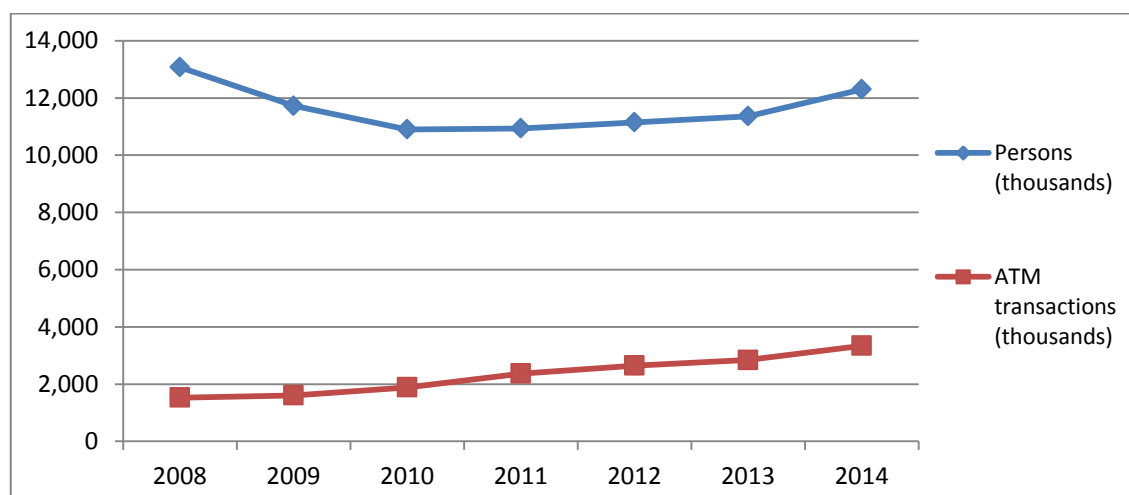
Table 2: Outflows from Romania and number of cash withdrawals with Romanian cards at ATMs abroad

Year	Number of outflows from Romania of Romanian citizens (thousands)	Number of cash withdrawals with Romanian cards at ATMs abroad (thousands)
2008	13,072	1,527
2009	11,723	1,604
2010	10,905	1,886
2011	10,936	2,368
2012	11,149	2,647
2013	11,364	2,845
2014	12,299	3,340

Source: realized by authors, based on data provided by NBR and INSSE

According to the study, the number of cash withdrawal transactions with cards issued by Romanian banks, carried out at ATMs abroad, is constantly increasing, but the amount per transaction had not increased as much from quarter to quarter. The average value withdrawn during March 2008 - March 2015 is 756 lei per transaction, with an increase of approximately 1.6% from one year to another.

Chart 2: A parallel between the number of Romanians who traveled abroad and the number of cash withdrawals carried out with Romanian bank cards at ATMs abroad



Source: realized by authors, based on Table 2

Regarding the number of transactions at ATMs, it has registered a continuous and progressive growth. According to the data shown in Chart 2, starting 2011, both the exits of people registered at borders and the level of card transactions at ATMs are constantly increasing.

## Conclusion

Under the rules imposed by the National Bank of Romania, all commercial banks which operate in Romania are not allowed to conduct anonymous transactions and are required to report information about the number, frequency and value of all transactions carried out by their customers.

According to Emergency Ordinance No. 99/2006 on “credit institutions and capital adequacy, approved with amendments by Law no. 227/2007, in order to protect the interests of deponents and to ensure a sound and viable banking system, National Bank of Romania ensures the prudential



supervision of credit institutions, Romanian legal entities, including their branches established in other Member States or in other countries, by establishing rules and prudential banking indicators and monitoring compliance with them and with other requirements stipulated by law and the applicable regulations, both on an individual and consolidated or subconsolidated basis, as appropriate, for preventing or limiting specific banking risks”.

Thus, institutions that operate in the tourism sector can carry out analyses and forecasts of tourism demand based on data provided by banks. Analyzing these transactions in more detail, it can be revealed in what regions more or less cash is withdrawn and in what currencies.

The increasing number of transactions conducted abroad with cards issued in Romania is the result of banks' involvement in educating and encouraging its customers to abandon the habit of travelling with much cash in their pockets.

This paper highlights the directly proportional ratio between the number Romanian outflows registered at borders and the number of withdrawals from ATMs abroad, which means that Romanian tourists are increasingly more mobile, more accustomed to new technologies and more open to novelty.

Besides the financial services they offer, banks give their cardholders free travel insurance and access to Priority Pass lounges inside airports. Confidence in trading services offered by banks has increased, meaning that these financial institutions play a role increasingly more important in influencing the level of growth in tourism, both nationally and internationally.

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## Some Aspects Concerning the Concept of Rent in the Romanian Law

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### Abstract

*The notion of rent was analyzed through the ages by both lawyers and economists generically representing an equivalent to the lack of use due to the owner of the property by the person who benefits from that good and form of profit that can be obtained by the owner of a good from the person exploiting the good.*

*The interest that this issue presents refers to the location of each of these types of understanding the concept of rent in areas where it is found and used to get to know the specifics and peculiarities of this term. Whether we speak of "ground rent" or "land rent" or "farm rent", we will consider the real legal relationships of the property, regarding the relationship between the land owner to the other people, who must adopt a certain behavior towards the owner and his/her good.*

**Key words:** rent, land rent, lifetime tenancy agreement, rentor

**J.E.L. classification:** K11, K12, K23,

### 1. Introduction

*Rent* is defined as income or regular income that an owner can get under its right of ownership of a good, whether it is movable or immovable, by giving in return for payment of right to use the said property. Also, the rent is seen as an interest produced by a bond.

Currently we meet the notion of rent in various fields, and defining this term acquires the specific features that define the area.

### 2. The concept of ground rent – the economic and legal sense

#### 2.1. Issues relating to the concept of rent

The legal literature recognizes and regulates various types of rent, respectively, *annuity* (the amount of money that a person commits her pay periodically to another the during the latter's lifetime), and *ground rent / farm rent* (which is a specialized form of life annuity, which is carried out, usually on land).

Throughout history we find the notion of *feudal rent*, which represents the performance through labor, goods or money that the serf was required to give to his lord. It was also known under the name of *serving* or *food ration*. When cereals were involved, usually this portion was measured and transported by bushel (according to A. Popescu 2015: 135, the English equivalent of the Romanian word “obroc” - term of Slavic origin attested in documents dating from the end of the 16<sup>th</sup> century), which was a bowl of cylindrical form, with a wide opening, made of lime wood.

On the other hand, the concept of *ground rent* is addressed in studies of economists, who relate it to the price and quantity of the land, but is also found in lawyers' concerns who, analyzing the issues of heritage and ownership, felt the need of legally regulating this notion. Since our analysis throughout this study will relate to a legal analysis of the concept of *ground rent*, we will make only brief assessments on the economic opinion and will further develop the lawyers' view of this concept.

## 2.2. The forms of the concept of rent

Studying the concerns of the economic and legal specialists, we find that the concept of rent takes different forms, depending on the area in which it is used and the goods which are under. Without proceeding to a thorough analysis, we shall go on by enumerating the forms that we may encounter in regard to the concept of rent so that we can form an opinion about it, and to be able to make assessments on the actuality or obsolescence of the term analyzed.

We note that if in the economic field we may come across several forms of rent, in the legal field this notion has fewer forms. We understand to articulate this assessment because the rent forms known in the economic field are subject to specific conditions specific to the legal field.

The rent forms known so far are the following:

**a) Ground rent** represents the income made by the owner of land through its lease for a determined period of time. Being a factor of production of a limited quantity, land is said to produce extra income in the form of rent (ground rent).

In analyzing this concept, lawyers started from the content of the civil legal relationship, continued with heritage, ownership and special contract matters. The concept of ground rent is explained by Adam Smith (economist, politician and philosopher) as part of the new value created in agriculture which is defined as the price to be paid for the use of private owned land.

**b) Mining Rent** is known in the extractive industry and it refers to people owning mining resources that can be exploited (Padure I., Tudorascu, M. M., 2005 : 14).

**c) Construction Rent** occurs when there are differences between the types of land on which one can build. Thus, some of these may have infrastructure / access to utilities (electricity, water sources, close to the main road or center).

**d) Seller's rent**, respectively, **buyer's rent** is deemed to be the difference in the sale price given that the contracting parties (seller and buyer) estimate a price, and at the time of the transaction the asset is sold for a higher price (favoring the seller) or a lower price (favoring the buyer). That price is in the form of rent according to the definition given by economists (income or profit obtained following the completion of a transaction) (I. Turcu, M. Stan Botină, 2008 : 121).

**e) Capacity or skill rent** represents the profit generated by certain professionals proving superior professional skills, managing to obtain higher incomes than others in the same professional category.

**f) Opportunistic Rent** is a artifice similar to stock market operations, where certain professionals invest capital in stocks of goods, during the period in which they have a low price, in order to sell them later on, after their price increases, thus obtaining a price difference, a profit.

**g) Scarcity or monopoly rent** represents a type of rent in which certain resources are limited as a result of the imposition of monopoly or due to natural circumstances, allowing a profit that is actually the rent itself (F., Braşoveanu, 2013: 108, 165).

**h) Transfer rent** is the profit earned as a result of the alteration of one of the production factors.

**i) Trade or business rent**, known as umbrella price, is an artifice specific to marketing, in which some large companies that have sufficient availabilities lower price of goods to the level of small companies so that the latter are required to raise prices in order to survive.

**j) State Rent** is an operation involving a sum of money paid by the state. This type of rent is found in the analysis of agricultural rent, when the state annually pays the holder a certain amount to the farmland owner to support his land cultivation. Sometimes we find this type of state in state borrowing operations, when a fixed percentage of the value of treasury bonds is paid (according to F., Braşoveanu, 2013: 147).

**k) Economic rent** is payment for the use of nonfungible economic resources whose total supply over demand is insufficient, resulting in an income for its owner as rent.

**l) Lifetime tenancy** is a sum of money that a natural or legal person undertakes to pay an individual periodically for the latter's lifetime (F. Dobre, 2011 : 46).

### 3. Romanian law which is specific for land rent

#### 3.1. Ground rent under Romanian law

Regarding *ground rent*, this is regulated by legislation specific to the issue of land without the laws concerning land regulating it themselves. Only with the advent of Law no. 247/2005 this was regulated as agricultural *lifelong annuity* (in Title XI) and subsequently completed and amended by ministerial orders and government ordinances.

Romanian lawmaker has defined as agricultural lifelong annuity *money paid to the agricultural annuitants who alienate or lease the farmland outside the city which is owned by them or who sign an agreement with the investor, in compliance with Art. 4 paragraph (1<sup>3</sup>) of Law no. 1/2000 for the restoration of property rights over agricultural and forested land applied according to Law no. 18/1991 and Law no. 169/1997, as amended and supplemented afterwards, with the certainty of a source of lifelong income to be guaranteed by the state* (Art. 2 of Law no. 247/2005).

Consequently, we find that the lawmaker links lifelong agricultural annuity to the lease agreement (in which *one party, called the Lessor, provides farm goods to the other party, called the Lessee, to be operated for a period of time, for a price, called rent*) and to the rent agreement (the part called *renter, shall undertake, to the benefit of a certain person, called rentor, regular benefits, consisting of money or other fungible goods*). Underlying each of these contracts there is a binding civil legal relationship (in which for each individual civil right there is a corresponding obligation) and a bilateral civil legal act (in which each of the contracting parties express their will in the sense of producing legal effects).

#### 3.2. Lifetime tenancy agreement

As for the *lifetime tenancy agreement* encountered in special civil contract law, that term was defined in both the former civil code (from 1864) and in the current Civil Code (entered into force on 01.10.2011) (F. Dobre, 2010 : 27).

Both the former civil code (Art. 1640) and the current civil code (Art. 2242) have defined and characterized the lifetime tenancy agreement as a convention, usually onerous, random, that is active for the entire life of the rentor (the tenancy creditor), unless the parties have established its duration for the renter's lifetime (the tenancy debtor) or for a third party.

This legal form is based on the legal relationship of obligations /debts, in which it is pursued the aim of concluding this type of contract in terms of rent. In this context, the creditor is a person receiving benefits representing life tenancy, and the debtor is one who undertakes to fulfill regular benefits.

The Romanian lawmaker has provided that establishing lifetime tenancy is at the discretion of the Contracting Parties. Thus, it can be established to the rentor's lifetime, the renter's lifetime or a specific third party.

### 4. Conclusions

At the end of our study regarding the meanings of the concept of *rent* we find that the notion we have analyzed is used in various fields, such as law, finance, mining, construction, agriculture etc. Incidentally, this was the starting point for our topic of research. Among these meanings that we can come across in everyday practice, two are most common, namely *agricultural rent* and *lifetime tenancy agreement*.

The existence of a legal relationship that is based on rent (any of its forms) requires obtaining a regular income entering the heritage of the owner's property over which rent is exerted in return for the owner's yielding the usage of the heresaid asset for a fixed or unfixed period of time, depending on the rent type.

We cannot claim to have exhausted the complete investigation of all the meanings that the concept of *rent* undergoes, but we tried to bring to the attention of those interested a substantial part of the gathered information.

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## Considerations on the Regional Disparities in the Romanian Academic Education

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### Abstract

*The present paper brings into question the problem of regional development in Romania, in particular, it analyses the disparities between regions in the field of higher education.*

*We based our research on a set of indicators which characterize academic education, such as the number of universities, the teaching staff in higher education and the graduates in higher education. For all of these we studied the concentration/diversification at a regional level, considering two components: the public education and the private education. Methodologically, we used the coefficients of concentration/diversification proposed by Gini and also the Struck coefficient.*

*The results indicated that there is a relatively high concentration for higher education. The Bucharest-Ilfov development region has grouped most part of the universities, both public and private.*

**Key words:** regional disparities, concentration/diversification, higher education, Gini coefficient

**J.E.L. classification:** A2, I21, I23

### 1. Introduction

Since 1990, the Romanian education system underwent a continuous reform which was both criticized and praised. In the past 25 years more universities were founded, both private and public, after a long period in which the access to a university was somewhat limited. Therefore, the possibilities for many people to attend a university increased, with a number of consequences on the labour market.

Higher education in Romania is offered in both public and private higher education institutions. All of them are coordinated by the Ministry of Education and Scientific Research. In higher education there are agencies that play a very important role in fields such as financing and scientific research or partnerships with social and economic environment.

The Romanian higher education has undergone significant changes since the academic year 2005/2006. Now it includes three cycles, according to the principles of the Bologna process. It is also correlated with the European educational system and with the applications of the European system of transferable credits.

The objectives and the main features of higher education include the assurance and equal access to academic education, the underlining of economic competitiveness on research and innovation, the maximization of quality in education, the development and implementation of the National Frame of Skills in the Higher Education system for the correlation of higher education with the demands of the labour market.

## 2. Studies for higher education in Romania

Higher education in Romania has made and is a serious research topic for many academic researchers. Education in Romania is in a continuous process of reorganization, playing a pivotal role in the development of society.

The current state of the Romanian higher education system, along with the progress in the implementation of the Bologna process, was discussed by Roman M. Based on statistical data on trends and number of student population and staff, the study highlights the importance of the demographic trend, which impacts both the evolution and the quality of the students' population as well as of the teachers'. (Roman, 2008, pp.5-26)

Tudorel, A. et al tried to identify the characteristics of the evolution of some data series regarding important variables that characterize the higher education in three countries in Eastern Europe, namely Romania, Bulgaria and Hungary, using econometric methods. The results presented emphasized the extensive development of higher education that cannot be sustained at the same level on a medium or long time perspective. (Tudorel et al, 2010)

A study by Korca highlights some characteristics of the higher education in Romania during transition. (Korca, 2009) It is also worth mentioning the results of a study developed by Teodorescu and Andrei which characterizes some aspects of the non-academic behaviour in higher education institutions and the student perceptions on academic integrity. The study also compares the relative importance of faculty influences and peer influences on students intention to cheat. (Teodorescu et al, 2009, pp.267-282)

Starting from the concern to ensure quality in education and comparing the higher education institutions, Curaj A. presents the Romanian higher education reforms in the Bologna process, and the national challenges. The conclusion of the study is that the internal quality assurance in Romanian universities is suspected of remaining still at the status of formality. (Curaj et al, 2015).

In a study designed to analyse the criteria of the choice that students take into consideration when following the financial-banking field for their higher education, Micu A. finds that students are not simple passive consumers in an academic area. They realize and judge how things are going on the educational market. (Micu et al., 2010, pp.1007-1014)

In 2008, the quality of the Romanian higher education system was studied in a survey having as main theme: the identification and quantification of the elements that shape quality in the higher education institutions. The main conclusion was that the system's evolution is conditioned by the effective intercessions that will be undertaken as far as education quality is concerned; it will be necessary to put into practice the declarations in this field in order to ensure education quality at European standards. (Juganaru et al, 2008).

Inspired by Jim Collins's structure from "Business Excellence", a group of researchers propose management solutions for the Romanian higher education system, explaining what it means Level 5 in education, for both professors and students. They state that the right way towards performance would require establishing a team between the students and their professors, a team to shape together a new paradigm of the education system, based on a win-win mentality and on the belief that education is the key to a nation's prosperity and persistence. (Popovici et al, 2015, pp.337-340)

These are just a few of the studies on Romanian higher education which come to prove the researchers interest in this area.

## 3. Methodological considerations

We based our study on the most recent data from the National Institute of Statistics, and especially on TEMPO-online, for the chapter dedicated to education.

We used a methodology based on the analysis of the coefficient of concentration/diversification proposed by Gini and Struck (Gini, 1909, pp. 769-789). These coefficients are widely used in fields as diverse as economics, education, sociology, health science, ecology, engineering and agriculture.

The Gini coefficient is usually defined mathematically based on the Lorenz curve. If in a Cartesian diagram, we report the values  $p_i$  on the abscissa and the values  $q_i$  on the ordinate and we connect the points  $(p_i, q_i)$ , the resulting curve is the *concentration curve* which is increasing and convex.

$$p_i = N_i / \sum n_i$$

$$q_i = L_i / \sum x_i n_i$$

where:  $p_i$  represents the relative flocks cumulated till the  $i$  level of the clustering feature and  $q_i$  represents the global values cumulated till the  $i$  level.

The formula used to calculate the Gini coefficient (GC) is the following:

$$CG = \sqrt{\sum_i g_i^2}, i = \overline{1, n}, \text{ with the values in the range } \left[ \sqrt{\frac{1}{n}}; 1 \right].$$

The Struck concentration coefficient (CS) represents the corrected form of the Gini coefficient and it is calculated with the formula:

$$CS = \frac{n \sum_i g_i^2}{n-1}, \text{ with the values in the range } [0; 1].$$

The values closed to zero level mean a balance between elements, a lack of concentration; zero level means that all values of the indicator under investigation are the same. If the values tend to one, we consider a high level of concentration; the value one expresses maximal inequality among values.

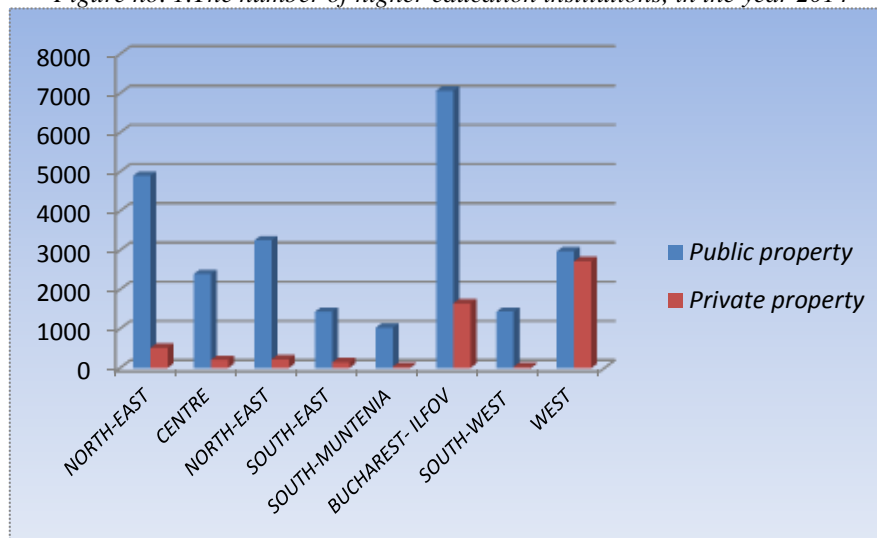
#### 4. The regional disparities in higher education

Starting from the goal of the Europe 2020 Strategy which stated that 40% of young Europeans should have a higher education diploma by 2020, we based our analysis on the regional concentration in academics on the following statistical indicators: total higher education institutions, public higher education institutions and private higher education institutions.

##### *The analysis for the number of higher education institutions*

In 2014, 55.44% of it was in public property and 45.55% in private property. At a regional level, five of the eight regions held a majority of public higher education institutions (Centre, South-East, South-Muntenia, South-West and West).

Figure no. 1. The number of higher education institutions, in the year 2014



Sources: National Institutes of Statistics, <http://www.insse.ro/cms/>

Related to the concentration of higher education institutions, the Gini coefficient value is 0.4341 and the Struck coefficient is 0.2694, which means that in the year 2014 there was a significant concentration of the total higher education institutions in the eight development regions. The concentration is especially visible in the Bucharest-Ilfov region, which owns 33.66% of the total higher education institutions.



Table 2: The regional concentration for the number of higher education institutions

	Gini coefficient	Struck coefficient
Total higher education institution	0.4341	0.2694
Public higher education institution	0.4126	0.2274
Private higher education institution	0.4697	0.3290

Sources: Data processed by authors

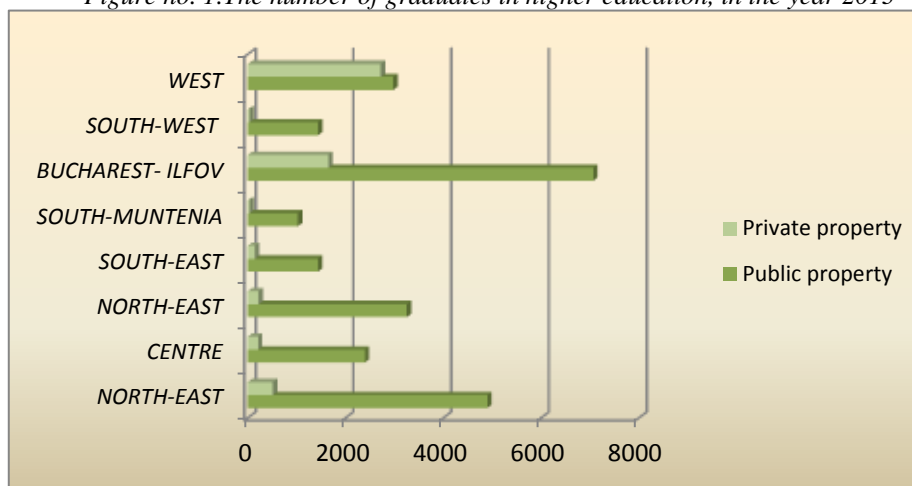
After the 1990 moment, the number of higher education institutions grew considerably in Romania, especially around the 2000s, and in the year 2014 the number of higher education institutions reached 101, from a peak of 126 in the year 2000 and the year 2001. At the same time, there has been a large diversification of specialized study programs offered by different institutions.

It is also known that approximately 20% of universities are over 100 years old of the total higher education institutions and 60% are younger than 25 years and the key axis of institutional diversification in the 1990s was the public/private one. Private higher education institutions have developed rapidly and provided study programs mostly in social sciences and humanities. In addition, public higher education institutions have diversified their study programs to respond to a very high demand for higher education degrees, from people coming from various walks of life.

**What were the regional disparities for graduates in higher education?**

The results of regional disparities for the university graduates show that there is a significant regional disparity, the Gini coefficient was 0.4099 and Struck coefficient was 0.2217, at a total level. Once again the Bucharest-Ilfov region is apart from the others, 30.1% of the university graduates were from this development region. A possible explanation is that many higher school graduates from outside Bucharest choose to come to the Bucharest-Ilfov region to continue their studies, in the perspective of a good job after graduation.

Figure no. 1. The number of graduates in higher education, in the year 2013

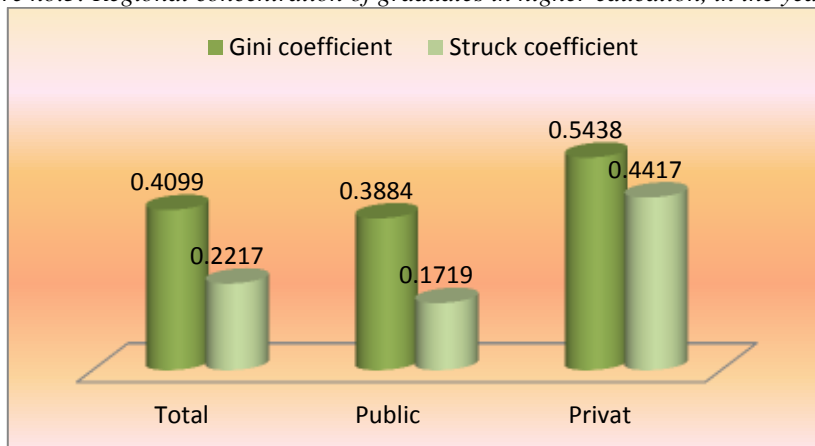


Sources: National Institutes of Statistics, <http://www.insse.ro/cms/>

For all eight development regions, the number of university graduates was significantly higher in public education versus private education. In Romania, in the year 2013, 77.14% of the number of higher education graduates came from public education, compared to only 22.86% from private education. The number of graduates in higher education grew considerably in Romania, the higher number was in 2007, more than double, compared with 2013.

As we see in Figure no. 3, for the graduates in higher education, the regional concentration is higher in the private sector, compared to the public sector. The concentration is especially visible in the Bucharest-Ilfov region, which owns 50.43% of the graduates in private higher education.

Figure no.3: Regional concentration of graduates in higher education, in the year 2013



Sources: Data processed by authors

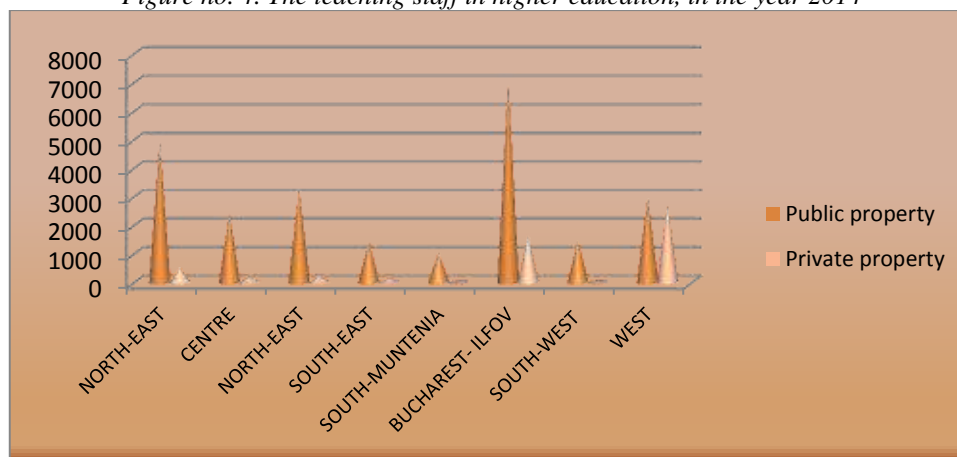
### Workforce in higher education

The number of teaching staff increased every year since 1990, in 2014 it was two times higher than in 1990, following the same increasing trend as the higher education institutions and the number of graduates in higher education.

At present, in Romania, the practices concerning the development of the teaching staff did not substantially change and the study programmes for teachers remained the same. There are no master programmes in teaching yet and the implementation of these regulations was postponed again and again.

If we refer to the concentration of the teaching staff in higher education, it is not essentially different from the two other indicators in the previous analysis. There is a significant regional concentration, the Gini coefficient was 0.4246 and Struck coefficient was 0.2515, at total level in 2014. In the private sector, the concentration was higher, the Gini coefficient was 0.5875 and Struck coefficient was 0.5016. Once again, the Bucharest-Ilfov region concentrated most of the teaching staff, 28.87% in public sectors and 29.87% in the private sector.

Figure no. 4. The teaching staff in higher education, in the year 2014



Sources: National Institutes of Statistics, <http://www.insse.ro/cms/>

## 5. Conclusions

The higher education in Romania is affected by the requirements arising from the economic, political and social fields. The universities face similar challenges, regardless of where they operate. They must respond to the complex and pretentious demands of their direct beneficiaries, the students, and also to the demands of the other players on the labour market seeking well-trained graduates.

The higher education system has a complex structure in terms of institutional development

efforts and in terms of sustainability. Development strategies of higher education should focus on developing coherent politics on the long-term, taking into consideration the fact that the results of the investments in this area are seen after several years.

The universities concentration is a highly debated topic and we could bring into discussion arguments that support the cause and that contradict it. One thing is clear - the whole system development should be based on encouraging the mobility of students and professors by accessing available scholarships and research grants.

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# The Evolution of the Turnover From the Point of View of the Number of Employees, the Net Realized Investments and the Average Gross Salary in the Romanian Footwear Industry

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## Abstract

*The turnover of the Romanian footwear industry had an ascending evolution going up to 4.138.309.513 lei in 2013 compared to 2.560.545.075 in 2004 (an increase of 61,62%). Maintaining this positive evolution depends also on knowing and understanding the factors that influence the turnover, some of them being the number of employees, the net realized investment and the average gross salary.*

*The aim of this article is to determine an econometrical model between the turnover (dependent variable) and the number of employees, the net realized investment and the average gross salary (independent variables) in the Romanian footwear industry in the period 2004-2013.*

**Key words:** turnover, multiple regression, model of analysis

**J.E.L. classification:** C50, D78

## 1. Introduction

The Romanian footwear industry represents an important component of the manufacturing industry, which has also proven its competitiveness after our country joined the European Union by the increase of the turnover and if the exports.

Even though the turnover had an ascending trend, the number of employees in the Romanian footwear industry had a descending trend due to the need of increasing the competitiveness by increasing the labor productivity. The characteristic of this industry is the fact that it doesn't need large investments for technology, and in Romania the cost of labor is, except Bulgaria, the lowest in the European Union. These aspects determined us to make a research of the Romanian footwear industry regarding the way the turnover is influenced by the number of employees, the net realized investment and the average gross salary.

The aim of the research was to determine a multiple linear regression model which can be used to visualize the influence of the number of employees, the net realized investment and the average gross salary on the turnover in the Romanian footwear industry in the period 2004-2013, using the national statistical data provided by the National Statistical Institute on its website: <http://statistici.insse.ro/shop/?lang=ro>.

Regarding the research methodology we mention the following:

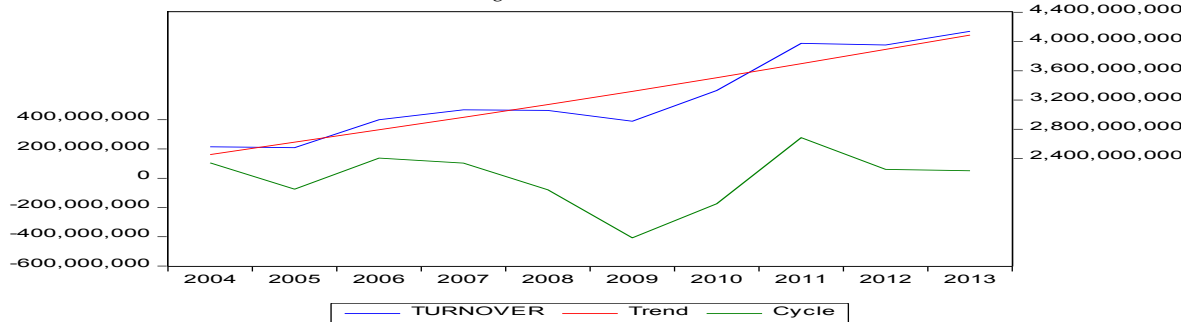
- the dependent variable is the turnover and the independent variables are number of employees (NE), net realized investment (NRI) and the average gross salary (AGS);
- we established a threshold of significance of 0.05;
- for verifying the statistical hypotheses we used the White test, the Durbin-Watson test, the LM Breusch-Godfrey test, Jarque-Berra test and the Klein test with EViews program.

## 2. The situation of the main indicators of the Romanian footwear industry

The analyzed indicators from the footwear industry have recorded favorable evolutions except for the net realized investments, which has decreased during the analyzed period.

The turnover of the Romanian footwear industry (figure no. 1) presents an obvious increase during the analyzed period, recording insignificant decreases in 2005, 2008, 2009 and 2012. If in 2005, the decrease of the turnover was determined by circumstantially factors, the decrease from 2008 and 2009 was mainly due to the world economic crisis and the one from 2012 was due to the existing predictions regarding a new possible crisis. Even if we talked about a decrease of the turnover, due to the fact that this decrease was under 0.6% in 2005, 2008 and 2012, we can say that it was a stagnation of the increase rather than a decrease.

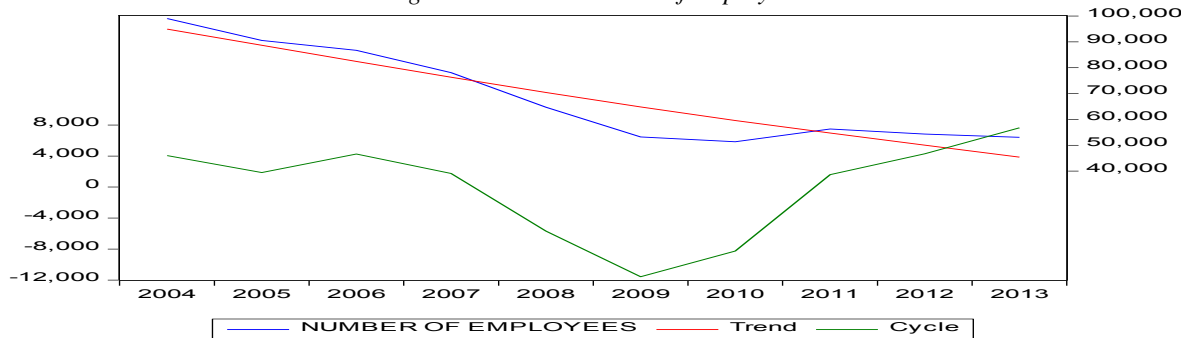
Figure no. 1. The turnover



Source: Author's self processing using EViews

The number of employees from the Romanian footwear industry (figure no. 2) decreased in the analyzed period, from 99.006 in 2004, to 53.046 in 2013. The only increase of the number of employees was recorded in 2011, this being explainable after a decrease of 34.2% in the period 2007-2010.

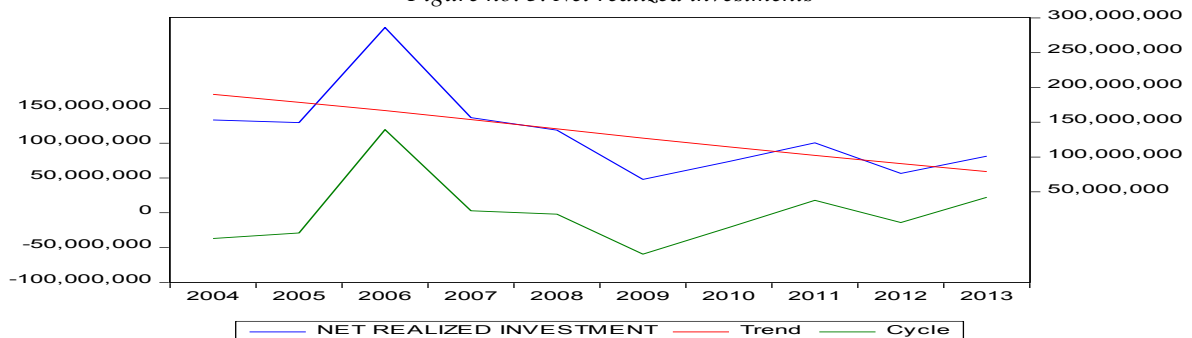
Figure no. 2. The number of employees



Source: Author's self processing using EViews

The net realized investments present an acyclic evolution (figure no. 3) with variations from one year to another, but overall, the largest net investments were recorded in 2006 when a refurbishment of the Romanian footwear industry took place with the aim of strenghtening its competitiveness, especially because in 2007 Romania joined the European Union, and over 90% of the exports of the industry are made in the community.

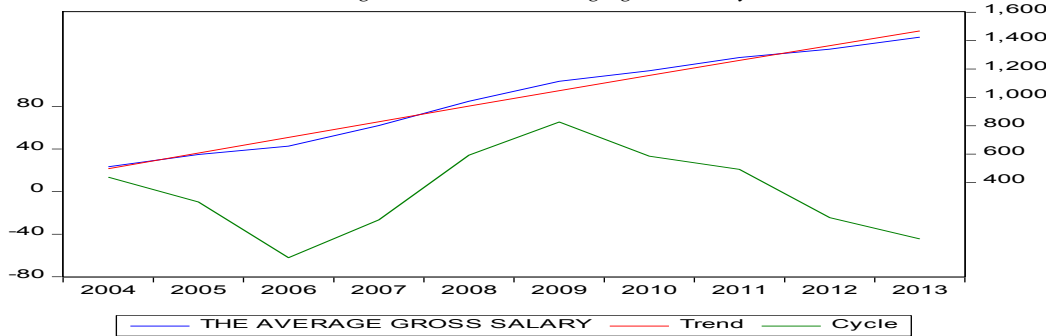
Figure no. 3. Net realized investments



Source: Author’s self processing using *EViews*

The average gross salary has continuously increased during 2004-2013 (figure no. 4), from 511 lei to 1.424 lei, but it’s still with an average of 30% lower than the national average gross salary, which shows that in the footwear industry the salaries of the employees should substantially increase.

Figure no. 4. The average gross salary



Source: Author’s self processing using *EViews*

### 3. The regression model

The multifactorial regression model by which we want to determine if, in the footwear industry, the turnover is influenced by the number of employees, net realized investment and the average gross salary has the following structure:

$$Y = c(1) + c(2)*X_1 + c(3)*X_2 + c(4)*X_3 + \epsilon$$

We apply the statistical test over this regression model and the obtained results are presented in figure no. 5. It can be seen that over 97% from the variation of the turnover of the Romanian footwear industry is explained by the number of employees, net realized investment and the average gross salary

Figure no. 5. The identified regression model

Dependent Variable: TURNOVER  
Method: Least Squares (Gauss-Newton / Marquardt steps)  
Included observations: 10  
TURNOVER = C(1) + C(2)\*NE + C(3)\*NRI + C(4)\*AGS

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-3.22E+09	7.59E+08	-4.240863	0.0054
C(2)	35575.13	6409.017	5.550794	0.0014
C(3)	2.277279	0.745353	3.055304	0.0224
C(4)	3759527.	343212.7	10.95393	0.0000
R-squared	0.980516	Mean dependent var		3.25E+09
Adjusted R-squared	0.970775	S.D. dependent var		5.84E+08
S.E. of regression	99830822	Akaike info criterion		39.96503
Sum squared resid	5.98E+16	Schwarz criterion		40.08606
Log likelihood	-195.8251	Hannan-Quinn criter.		39.83225
F-statistic	100.6509	Durbin-Watson stat		1.945045
Prob(F-statistic)	0.000016			

Source: Author’s self processing using *EViews*

With *EViews* program we verify the assumption of homoscedasticity using the White test (Andrei et al, 2008, pp. 150-152) (figure no. 6). As it can be seen, the value Obs\*R-squared is smaller than the tabled value of  $\chi^2_{0,05;4}$  ( $0,7614 < 9,49$ ). Also, the F-statistic value is smaller than  $F_{0,05;3;6}$  ( $0,1648 < 4,76$ ) and the estimators of the model are insignificant for the fixed threshold of significance, resulting that the assumption of homoscedasticity is verified (Pecican, 2006, p. 80;

Angelache et al, 2012, p. 228).

Figure no. 6. The White test

Heteroskedasticity Test: White				
F-statistic	0.164831	Prob. F(3,6)	0.9163	
Obs*R-squared	0.761406	Prob. Chi-Square(3)	0.8587	
Scaled explained SS	0.151472	Prob. Chi-Square(3)	0.9850	
Test Equation:				
Dependent Variable: RESID^2				
Method: Least Squares				
Sample: 2004 2013				
Included observations: 10				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.62E+15	2.20E+16	0.391688	0.7088
(NE)^2	-600706.6	2333923.	-0.257381	0.8055
(NIR)^2	-0.000750	0.143216	-0.005233	0.9960
(AGS)^2	3.67E+08	9.86E+09	0.037214	0.9715
R-squared	0.076141	Mean dependent var	5.98E+15	
Adjusted R-squared	-0.385789	S.D. dependent var	6.63E+15	
S.E. of regression	7.80E+15	Akaike info criterion	76.31302	
Sum squared resid	3.65E+32	Schwarz criterion	76.43405	
Log likelihood	-377.5651	Hannan-Quinn criter.	76.18024	
F-statistic	0.164831	Durbin-Watson stat	3.054824	
Prob(F-statistic)	0.916252			

Source: Author’s self processing using EViews

With Eviews program we verify the assumption of independence of the errors using the Durbin-Watson test. For the chosen threshold of significance (0.05), the number of the exogenous variables (3) and the observed values (10) from the Durbin-Watson table we have  $d_1=0,525$  și  $d_2=2,016$ . We observe that  $d_1 < \text{Durbin-Watson stat} < d_2$  ( $0,525 < 1,945 < 2,016$ ); we are unable to decide so we use LM Breusch-Godfrey test (figure no. 7). We have  $\text{Obs*R-squared} < \chi^2_{0,05;4}$  ( $7,657 < 9,49$ ), so it can be said that the errors are independent (Pecican, 2006, pp. 82-83).

Figure no 7. The LM Breusch-Godfrey test

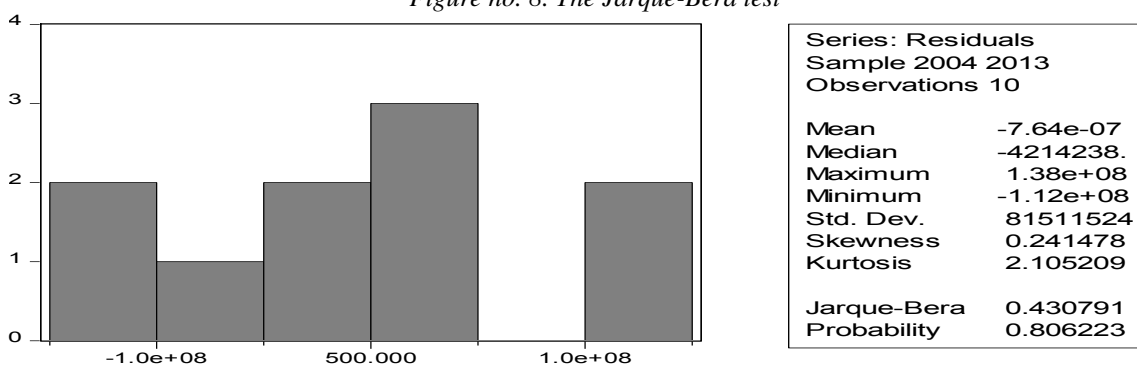
Breusch-Godfrey Serial Correlation LM Test:				
F-statistic	6.537673	Prob. F(2,4)	0.0549	
Obs*R-squared	7.657441	Prob. Chi-Square(2)	0.0217	
Test Equation:				
Dependent Variable: RESID				
Method: Least Squares				
Sample: 2004 2013				
Included observations: 10				
Presample missing value lagged residuals set to zero.				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	10321097	4.67E+08	0.022079	0.9834
C(2)	514.2677	3932.573	0.130771	0.9023
C(3)	-0.573728	0.471090	-1.217874	0.2902
C(4)	44863.71	214210.6	0.209437	0.8443
RESID(-1)	-0.325711	0.307338	-1.059779	0.3490
RESID(-2)	-1.115900	0.310600	-3.592721	0.0229
R-squared	0.765744	Mean dependent var	-7.64E-07	
Adjusted R-squared	0.472924	S.D. dependent var	81511524	
S.E. of regression	59177350	Akaike info criterion	38.91369	
Sum squared resid	1.40E+16	Schwarz criterion	39.09524	
Log likelihood	-188.5684	Hannan-Quinn criter.	38.71452	
F-statistic	2.615069	Durbin-Watson stat	2.481515	
Prob(F-statistic)	0.186395			

Source: Author’s self processing using EViews

With Eviews program we verify the assumption of normality of the values of the residual variable by using the Jarque-Bera test (figure no. 8). The calculated value of the Jarque-Bera test is smaller than the tabled value of  $\chi^2_{0,05;2}$  ( $0,43 < 5,99$ ); the probability that the Jarque-Bera test doesn’t exceed the tabled value is big enough (80%) aspects which allow us to conclude that the

assumption of normality of the errors can be accepted.

Figure no. 8. The Jarque-Bera test



Source: Author's self processing using EViews

We use the Klein test in order to determine the multicollinearity (table no. 1). Because there aren't any simple correlation coefficients that are bigger than the multiple coefficient of determination (0.98), we can say that there isn't multicollinearity between the variables of the model so the model can be considered viable (Andrei y Spiricu, 2009, pp. 116-117).

Table no. 1. The correlations of the variables from the regression model

	Turnover	Number of employees	Net realized investment	The average gross salary
Turnover	1			
Net realized investment	-0,75473	1		
Number of employees	-0,4212	0,696685	1	
The average gross salary	0,902792	-0,95577	-0,67548	1

Source: Author's self processing using Excel/Data Analysis

#### 4. Conclusions

After the analysis made within the article we can say that the multifactorial regression model is correct taking into account the following considerations:

- the turnover is mainly explained by the independent variables considered in the model, the multiple correlation coefficient and Adjusted R Squared having large value;
- the multiple regression model is good, the value of the statistic of the F test being large and Significance F is very small;
- for the independent values included in the model the the null hypothesis is rejected;
- there isn't multicollinearity between the variables of the model.

So the multiple regression model that explains the variation of the turnover from the Romanian footwear industry taking into consideration the number of employees, net realized investment and the average gross salary is:

$$\text{TURNOVER} = -3.22\text{E}+09 + 35.575,13*\text{NE} + 2,277279*\text{NRI} + 3.759.527*\text{AGS}$$

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## It's All About Economics –The Urban Ecology in T.S. Eliot's *The Waste Land*

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### Abstract

*This paper aims to reveal a social-economic pattern within T.S. Eliot's *The Waste Land*, a Modernistic post-apocalyptic poem, in which the inner self of the modern urbanite is fragmented by the post-war reality of the beginning of the last century. The main space in which the human being dwells is the city, a culturally constructed place of conflicting psychological, social, economic and natural energies. The urbanite's interior conflict is objectified toward the social otherness and, further, over the natural other, in this way, a hierarchy of power between the social human and the natural environment having been established. This collision between incompatible and unnatural agencies is mediated by the transformation of nature in urban space through means of economic and cultural production and consumption. The sterile land represents the direct aftermath of the over-exploited, over-consumed and over(re)produced nature, which has become a social waste.*

**Key words:** *The Waste Land*, oikos, city, social ecology, production of space

**J.E.L. classification:** A14, Q57, X80, Z13

### 1. Introduction

From an ecocritical point of view, the city has been always situated within the binary opposition of Nature and Culture, the latter being consubstantial to the urban medium. Weather deconstructing or, on the contrary, preserving this dichotomy, the urban environment and its urbanites have generated multiple, eclectic and rhizomatic threads of economic, financial and commercial patterns and paradigms. As a social science, *economics* does not exclusively deal with money and, in this respect, it ought to be apprehended within a larger context, that of social structures from which it originated. Its etymology relates to *oikos*, which means house, and *nomos*, which means custom or law and should be understood as a relationship of stewardship and management between an individual and one's property, or between specific individuals, regarding various exchanges. A cognate term is *ecumene*, stemming from the Greek *oikoumene*, which means inhabited and it may refer to a dwelt space of civilizational, cultural and political management. Another cognate is the word *ecology*, which stems from *oikos* and *logia/logos*, meaning house-environment and word/study/science.

All these three cognate terms have the environmental *oikos* as a semantic and pragmatic carrier of the idea of nature as home. Furthermore, this sense of natural or built-urban home is reinforced by its *logos*, namely its multiple *logoi* which unite the urbanite with the urban structures. In the poem, this dynamic interrelatedness takes shape through the agency of the logical-cultural-economic circulation of capital. Within this fluid space, the boundaries of the untamed nature and the economic city are blurred and their inner oppositions are continuously renegotiated. Hybrid and postmodern approaches, such as ecological economics, green economics or environmental economics, may be taken into account when scrutinizing the natural-social continuum. “The ideas of “urban” and “natural” thus represent one of the last great Western dualisms that needs to be bridged or dissolved: urbanature. This apparent opposition—nature versus culture, the natural versus the artificial, man versus nature—is all one and the same. Here is a final reason why.

Urbanature already exists”. (Nichols, 2011, p.203)

## 2.1. The Historical and Economic Context

“If there is a difficulty describing T.S. Eliot’s economic context, it is that it spans micro-economic events far larger than any individual. Eliot’s relationship to economics involves the monetary struggles of a single newlywed couple, the fate of small circulation, almost voluntary literary journals and the serendipity of a personal career, as well as the rise and fall of national currencies, the emergence of labour politics effecting the decisions of the British parliament, the post-war dismantling of Germany’s economy, the severe economic depressions of the 1920s and 1930s and Britain’s long historical movement from an agrarian to a manufacturing and then a consumer society” (Harding, 2011, p.275). The poem belongs to the Modernist Geist, but this literary movement ought to be embedded into the larger paradigm of Modernity. This post-war period is one of social, political and economic changes and these events are caught within the poem. The fixity of the Victorian Empire is replaced by a more flexible vision of society, in which the authority of the state gives place to Fordism and local-negotiable economic status. *The Waste Land* reveals a post-apocalyptic and damaged place of eclectic histories, politics, economically disrupted states of consciousness. The mythical past is incorporated into the severe and unreal substance of the present, this aesthetic perspective giving the reader a synchronic and, at the same time, a fragmented perception of reality.

Although depersonalized and aesthetically abstracted from the poem, Eliot’s authorial voice is simultaneously immanent and transcendent to London’s reality: “over London Bridge... up the hill and down King William Street, / To where Saint Mary Woolnoth kept the hours” (Eliot, 1922, lines 62, 66-67). This spatiality is impregnated with London’s banking system symbols and is associated with the British financial center from the twentieth century. It is also the place where Eliot worked as a banker and wrote the poem. “Eliot carrier as a London banker and his migration from Saint Louis to the metropolitan crossroads of London were the catalysts for his modernist attempt to nurture the idea of a global culture. As the cultural goods flowed through London, he attempted to order and transpose them into a single textual space, *The Waste Land*, a work we now might see as the foundation myth of the global village” (McLaughlin, 2000, p. 169). Until the last century, the historical process of globalization was continuously centered and decentered, according to the contextual and temporal body politic. After the Great War, from a poststructural perspective, the political dynamics of globalization begins to be deconstructed in terms of overcoming the prior hierarchies of power between politicians and those who do not have political authority. In other words, the globalization begins to stem from economic interests and the body politic begins to function in terms of economic needs. Nevertheless, the democratization of globalization brought other hierarchies, not political, but social-economic, as seen in the poem.

## 2.2. Social Ecological Premises

“People, as well as commodities and capital, were becoming increasingly international and cosmopolitan as cultural identity like currency, became less fixed and more variable” (McLaughlin, 2000, p. 171). As inferred, the transition from political to economic globalization preserved the prior hierarchical and societal threads; after all, the power has been always negotiated in terms of property or money. From a social ecological point of view, “the very domination of nature by man stems from the very real domination of human by human” (Bookchin, 1982, p. 65). This inter-human domination is conceptualized as having economic, ethnic, cultural and gender roots, from which hierarchical dualities function as means of exerting power. The apex of the ecological conflict is fully achieved in the modern and capitalist society, where nature becomes a commodity and urban environment replaces organic space. Heretofore, there is an inner social hierarchy, which has economic roots because all the societal exchanges are mediated by needs, property and goods. This hierarchy is objectified into nature in terms of establishing a pattern of identity and alterity between the human being and the “othered” environment. These two types of hierarchy are rooted within the very essence of the human, especially the modern and capitalist urbanite.

In the poem, the fragmented human psyche symbolically coincides with the generic post-war

anxious mind. The urbanite dwells within a fragmented city and this spatial environment oppressively interact with one’s mind, this act of psychological and urban association causing interior fragmentation. This disruption equals to an alienation both from the perceived other or even oneself. For example, the intimate relationship between two lovers actually relates to an act of inertial and mechanical alienation: “His vanity requires no response, /.../ She turns and looks a moment in the glass, / Hardly aware of her departed lover;” (Eliot, 1922, lines 241, 249-250). The personal damaged behavior has external-social consequences, especially within a post-traditional society, wherein the patriarchal patterns are still preserved. The male lover, apprehended as a virtual money maker, feels that he is in power and has a superior attitude toward his female partner: ” Bestows one final patronising kiss,” (Eliot, 1922, line 247). Thus, the idiosyncratic otherness has led to a social alienated other, in which the male-variable from this binary opposition has the power. Furthermore, this hierarchy extends to the natural other, perceived as an object of economic exploitation. The interplay between the urban self and the environmental other potentially transforms the latter from a space of living to an infected place of wastes: ” The river bears no empty bottles, sandwich papers, / Silk handkerchiefs, cardboard boxes, cigarette ends” (Eliot, 1922, lines 177-178). The social ecological approach seeks to find an ecological equilibrium between the social human being, one’s economic needs and structural constraints, the political system and the ecosystem in which one lives. In other words, the transition from the previous state of nature to the modern state of culture ought to be made without damaging the fragile natural-psychological-social-economic continuum.

Figure no. 1. The social ecological system



Source: <http://catalog.ipbes.net/assessments/50> [Accessed 1 May 2016]

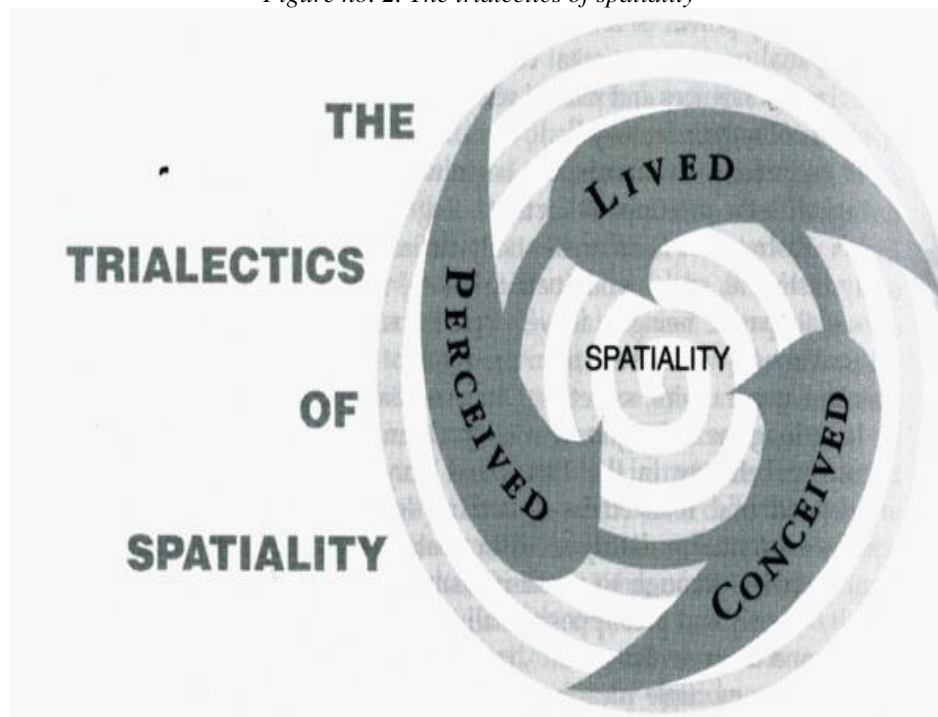
### 2.3. The Production of Urban-Economic Spaces

This process of transformation represents a transition from a supposed natural state of spatial reality to a fabricated one, in which the dialectics of nature-city is sublimated toward a space of economic production and consumption. “The same dialectical process leads from primary and primordial nature to a “second nature”, from natural space to a space which is at once a product and a work, combining art and science within itself. The coming to maturity of this second nature is a slow and laborious process: its motor is automation, which is constantly pushing forward into the vast realm of necessity – the realm that is to say, of the production of things in space” (Lefebvre, 1991, p. 409). The second nature or the city represents an urban-natural continuity of nature, but, at

the same time, it is articulated with artificiality and automatic means of production. Having inferred that there is a consubstantial continuity between the personal, the social and the natural environment, people’s actions aesthetically reveal the mechanical-psychological problems of the urbanite from *The Waste Land*. After consummating the intimate act of love, the feminine character’s behavior is similar to the whole economic-social structure, namely meaningless, automatic, fragmented, dissociated from her lover and herself: “Her brain allows one half-formed thought to pass: / “Well now that’s done: and I’m glad it’s over.” / .../ She smoothes her hair with automatic hand, / And puts a record on the gramophone.” (Eliot, 1922, lines 251-252, 255-256). The mentioned device is an iconic image of the unreal aspects of the economic society, in which life and the subjective experiences are simulated within the complex web of urban production.

The production of urban-economic space and the realization of the second nature are philosophically apprehended through a spatial trialectics (Lefebvre, 1991, p. 33). The first is the perceived-natural spatial practice, which is associated with daily routines or routes between places. The second is the conceived-mental representation of space, which is associated with scientific planning or technocratic work. The third is the lived-social representational space, which is associated with the urban inhabitants or their symbolic codes of communication. This post-dialectical approach is recurring in terms of its non-fixed and non-linear character. Thus, nature represents a space of constructed perception, wherein the border between the social nature and the social city is blurred: ““You gave me hyacinths first a year ago; / “They called me the hyacinth girl.” / -- Yet when we came back, late, from the Hyacinth garden,” (Eliot, 1922, lines 35-37). Furthermore, the conceived space of the psyche is fragmented, according to the fragmented economic-social space, and the urbanite’s mind tries to reconcile the happier past with the cruel present, and the conceptualized pure nature with the infertile city: ” Memory and desire, stirring / Dull roots with spring rain. /.../ Summer surprised us, coming over the Starnbergersee / With a shower of rain; we stopped in the colonnade,” (Eliot, 1922, lines 3-4, 8-9). The social space is one in which the urbanite dwells and subsists, seeking to find a logical order within the social fragments of the city and an inter-personal means of communication: ” “My nerves are bad tonight. Yes, bad. Stay with me. / “Speak to me. Why do you never speak. Speak. / “What are you thinking of? What thinking? What? / “I never know what you are thinking. Think.”” (Eliot, 1922, lines 111-114). There is a flux between these cultural incompatible media, which links the urban psyche with the first and second natures.

Figure no. 2. The trialectics of spatiality



Source: <http://olivaeninde.over-blog.com/article-13585692.html> [Accessed 1 May 2016]

### 3. Conclusions

There are many hypostases in which the social-economic reality of British society, especially concerning the city of London, is displayed within the poem. The “waste-landers” try to accommodate their lives within the fluidity of existential and geographical circumstances in which they live, especially in “London as a crossroads of empire and global capitalism where products, peoples, and styles from around the world are brought into contact ... As information and capital flowed in and out of London, they were constantly being compared, exchanged, translated and converted” (McLaughlin, 2000, p. 169). The iconic cosmopolis, geographically and symbolically situated within the flux of commercial and cultural exchange, has many instances in the poem, such as: the crowd, possible commuters flowing over London Bridge (Eliot, 1922, line 62); the reference of King William Street, the financial and banking center of capitalist power; the mention of the economic hierarchy (Eliot, 1922, line 180); the displaying of allowing commercial documents (Eliot, 1922, line 211); the reference of business hotels Metropole and Cannon Street Hotel (Eliot, 1922, lines 213-214); the allusion to a fish market, in Lower Thames Street (Eliot, 1922, line 260); the mention of Moorgate, another financial symbol (Eliot, 1922, line 296); reference to another hotel, near Margate (Eliot, 1922, line 300).

The direct or subtle economic allusions within *The Waste Land* reveal an unreal city, embedded with cultural, historical and political symbols and which does not have merely aesthetic and poetic implications. The “unreality” of this fictional space is connected to the reality of the perceived urban medium. The author’s depersonalized voice mediates between the real and the unreal, past and present, the environment and the city, the virtual unifying logos and the displayed fragments of society. The psychological, social and natural antinomies, which alienated the urbanite from other and from oneself, may be overcome through a re-appropriation of the oikos. This ought to be performed by seeking the ecological-economic logos of the world, meaning that the economic mechanisms must be apprehended through a non-hierarchical and inter-agentive interplay between the ecologies of mind, society and nature. Toward the urban development, from the initially perceived nature, the production of space is to be associated to a post-productive and post-consumerist paradigm, wherein the environment does not become waste. The ecocritical perspective seeks to bridge the segregated economic realm of society and the culturally constructed realm of nature.

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## A Critical Review of the Most Relevant Welfare Indicators from an Environmental Perspective

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### Abstract

*Measuring a country's welfare and subsequently ranking it with respect to other states is becoming increasingly popular and also useful. In spite of the diversified portfolio of indicators available to assess a country's welfare, not all of them look towards the community, a sustainable future and the environment. An interesting question arises: to what extent do the most important welfare indicators account for the environmental component? This study aims to critically analyse the most important welfare indicators from an environmental perspective so as to identify appropriate tools for measuring the sustainable welfare of a country.*

**Key words:** welfare, environment, sustainable development, welfare indicators, GDP

**J.E.L. classification:** D60, E01, O11, Q01, Q56.

### 1. Introduction

It is widely recognized by the specialized literature the importance of measuring the welfare of a country, irrespective of whether that recognition is done by members of the academic circles, policy makers, public officers or the media. More than that, it is very useful in judging the position of a country's economy over time or relative to that of other countries. This interesting fact is accompanied by a diversification of the indicators designed to quantify a state's 'welfare'. If several decades ago there was almost a common ground in that the real GDP per capita was the only indicator able to fully measure the standard of living within a country (some economists even substitute the GDP with the phrase 'standard of living'), nowadays we have at our disposal a diversified portfolio of indicators, different in structure, methods of computation or manner of application (proof of their political importance in the decision making process). The new generation of welfare indicators that does not cease to appear as the boundaries of knowledge are continuously pushed forward, comes as an alternative to the old ones (excessively focused on the GDP) that do not fully gauge a country's welfare (and it's various dimensions related to the economy, society and the environment) and aren't representative or conclusive enough to capture all the relevant aspects.

Furthermore, a country's welfare cannot be measured in static terms, by disconnecting it from the surrounding environment (from which it draws its resources) or from the reverberations upon the future generations (on which current decisions and actions will take effect). Thus, a welfare indicator must also look towards the community, a sustainable future and the environment. The growth in GDP of a country may imply that social and environmental wastes are produced in the economic system, and excluding them from the indicator can distort the welfare value of that country. In this context, an obvious question arises: to what extent the current most important welfare indicators account for the environmental component when assessing a country's welfare?

The aim of the study is to critically analyse the most important welfare indicators from an environmental perspective so as to recommend the most appropriate instruments for measuring the sustainable welfare of a country. There are various different types of indicators used in measuring a

state's welfare; nonetheless, the paper focuses, on the one hand, on the most widely used traditional indicators and, on the other hand, on the new generation of “green” indicators, able to cover the environmental dimension of a state's welfare. The paper wishes to identify those environmentally relevant welfare indicators which could be further used in more in-depth studies on a country's welfare.

The rest of the paper is structured as follows: part 2 briefly captures the current state of the specialized literature on the topic, part 3 critically presents the most important welfare indicators, while part 4 is dedicated to discussions of and conclusions on the most appropriate environmentally relevant welfare indicators for measuring the welfare of a country.

## **2. Measuring a county's welfare**

One can notice that in the last decades, there was an increasing interest in analysing welfare indicators. Numerous studies have ranked countries according to various welfare metrics. There are studies that focus on monetary indicators (by looking directly in the national accounts of an economy as a whole or at households, or by capturing the monetary influence of other components of well-being, like leisure time and income distribution) as there are studies which adopt non-monetary indices (like indicators of social conditions and environmental quality, indicators referring to happiness and life-satisfaction). Given the limited space available, we cannot mention all the contributions in the specialized literature referring to welfare metrics; nevertheless, some of the most relevant ones consider (*apud* Hussain, 2016, pp. 1-3): the relation between a state's welfare and poverty (Kangas and Ritakallio, 2007, pp. 119-123), the interlinkages to deprivation (Whelan and Maitre, 2005, pp. 423-425), the quality of life and social well-being (Glatzer, 2012, pp. 381-398), social progress as a measure for worldwide social development (Estes, 2010, p. 363), inequalities as factors that affect welfare on a social, political and cultural level (Lancee and van de Werfhorst, 2012, pp. 1166-1178), human development and its connexions with the social capital (Christoforou, 2010, pp. 191-193), etc.

Some of the most relevant papers just describe the main welfare indicators available on the market. Others analyse the main welfare indicators in a more critical manner. Analysing the alternatives to GDP as measures of social welfare/progress van den Bergh and Antal (2014, p. 10) concluded that the Index of Sustainable Economic Welfare (ISEW) seems to be the best choice instead of GDP. They argued that the constant interest and suggestions for improving the ISEW approach are the evidences of the desire for turning it in the number one welfare indicator. Boarini et al. (2006, pp. 6-7) studying the alternative measures of well-being have found that welfare cannot be measured just in terms of money. They summarize that GDP or other traditional monetary welfare indicator should be complemented with indicators pertaining to social and environmental conditions.

Others have also criticized the GDP being used as a proxy of social welfare. Criticism has come since the 1960s from some of the most respected economists of the 20th century, including various Nobel laureates (as stated by van den Bergh and Antal (2014, p. 2) who provide a list of 20 important economist who criticized the excessive use of GDP as a measure of welfare). Some of the arguments provided fall into one of the following categories (van den Bergh, 2009, pp. 2-3): principles of proper accounting, intertemporal considerations, lexicographic preferences, empirical studies of happiness, income distribution, relative income and rivalry for status, formal versus informal economy, environmental externalities and depletion of natural resources. Yet again, one can see the importance of the environment and its absence from the current form of the GDP, as it, the GDP, does not capture natural capital depreciation, including environmental change and depletion of resource supplies.

## **3. The most relevant social welfare indicators**

### ***GDP per capita***

The real Gross Domestic Product (GDP) per capita still plays a central role in ranking countries in accordance with their economic development. Even if GDP was never intended to be a welfare indicator (Nordhaus and Tobin, 1972, p. 4), it continues to be a crude measure of welfare (Hussain, 2016, p. 3). As mentioned by the OECD (2015, p. 3), the real GDP per capita is a basic indicator of the economic performance and is commonly used to measure the average standard of living or economic well-being. In these conditions the GDP is frequently identified with welfare. It's

needless to say that often in literature the GDP is even considered synonymous with the concept of welfare. This is illustrated clearly by substituting common phrase “standard of living”.

The growth of the level of production of goods and services is a key factor in determining how the economy works. The real GDP per capita growth rate pretends to indicate the increase of income of every citizen of a state. As a single composite indicator, real GDP per capita is a powerful summary indicator of economic development. As Hussain (2016, p. 3) mentions, this indicator could be useful in measuring the general level of welfare but within an average analysis.

Given the fact that an important problem of this type of analysis is that it doesn't take into consideration the distribution within the society, the accuracy of the GDP per capita as a welfare indicator is debatable. Although it is a very important instrument used to capture the economic component of sustainable development, GDP doesn't directly and fully gauge a country's sustainable development. Moreover, it doesn't distinguish between sustainable and unsustainable activities or even between beneficial and harmful economic activities. For example, natural disasters, as earthquakes, tsunami or hurricanes, have a positive impact on the GDP growth. The same trend was identified in the cases of crime increases or even the depletion of natural resources.

Moreover, GDP is not able to capture the depreciation of the natural capital nor doesn't it adequately reflect the negative externalities such as pollution and natural capital depreciation associated with environmental changes (e.g. deforestation) – pointing to some countries that are more prosperous than they would be in reality.

Starting with the '60s, welfare became a multidimensional concept, thus paving the way for a new generation of indicators called to replace the GDP and to better capture this continuously changeable notion. As stated by the OECD, GDP “remains the most important measure of total economic activity, but other measures may better reflect other aspects of the economy” (OECD, 2015, p. 3).

### ***The Index of Sustainable Economic Welfare and Genuine Progress Indicator***

This category of indicators represents a possible solution to some of the most important deficiencies of the traditional GDP. The Index of Sustainable Economic Welfare (ISEW) is one of the most recognizable welfare indicator and was designed by Daly and Cobb (1989, pp. 1-15). The core of the ISEW is represented by the private consumption; it is common knowledge that the GDP has the same philosophy of construction.

According to Stockhammer et al. (1997, p. 23), distribution is a part of welfare itself. They emphasized that welfare exists only if the entire society takes part in its construction. The components that increase the economic welfare are considered to be positive, while the components that reduce the economic welfare are considered negative. For example, some positive benefits are the services arising from the work of domestic / household, durable goods and transport networks, while negative elements are the costs of health and education (because they are considered defensive expenses), the cost of durable goods, the commuting and traffic accidents. There are several other costs related to the environmental dimension that ISEW captures, like air and water pollution, deforestation, loss of farmland or waste of non-renewable resources. The latter is a cost that will be deducted from the estimates of the current generation but will be assumed by the future generations (Pulselli et al., 2006, p. 276).

The Genuine Progress Indicator (GPI) differs from ISEW just by the types of corrections or adjustments that are included in the main formula. Other important issues captured by the GPI are voluntary work, criminality, divorce, leisure, unemployment and deterioration of the ozone layer (van den Bergh and Antal, 2014, p. 4).

Nevertheless, the ISEW is not as available as the GDP. ISEW was in fact estimated just for a limited number of countries (Lawn, 2003, p. 110). But just using the available data, one could see that while the GDP is growing, ISEW follows another path: it seems to be constant or even decreasing after a certain time. Some of the reasons for the decoupling of ISEW from the GDP refer to the replacing of the informal production of household services market (e.g. childcare), increasing inequality, depleting of the natural resources and emerging global environmental problems (global warming, deforestation, acid rain, air and water pollution, loss of biodiversity etc.).

Even so, ISEW is not a perfect indicator of social welfare. This indicator has been criticized for a series of disadvantages such as the arbitrary selection of the variables to be included or excluded from the indicator, the calculation method and the presumption that GDP is not an indicator of economic welfare, but rather an indicator of aggregate economic output (Neumayer, 1999, p. 95, 2000, p. 350).



He also has drawn attention to the inconsistencies in the methodology for calculating this indicator.

Another problem of the ISEW index derives from the fact that this does not imply genuinely achieving the proposed goals. From the beginning, environmentalist economists designed and developed the ISEW having in mind the idea of strong sustainability. This is why Neumayer (2000, p. 360) argues that ISEW doesn't recognise the differences between national/human capital and natural capital and also between the different forms of natural capital (renewable and non-renewable resources).

Besides the criticism revealed by Neumayer (2000, pp. 347-364), Philip Lawn emphasizes that the ISEW, as well as GPI, requires more robust monetary evaluation to reach the status of acceptable social welfare indicator (Lawn, 2003, p. 116).

### ***Sustainable or green GDP***

Sustainable or green GDP is an index of economic growth strongly connected with the environmental component. Sustainable GDP, like the previous indicators, starts building on the GDP, but diminishes it with losses in biodiversity, as well as all costs caused by the climate change. This indicator has been designed in order to correct the omissions left out by the GDP, by not taking into account the goods and services that are not on the market. The Green GDP proponents argue that the GDP does not fully reflect the traditional economic welfare and can even transmit misleading information on a country's economic growth (Yang and Poon, 2013, p. 560). This is because the GDP does not adequately reflect negative externalities such as pollution and depreciation of natural capital associated with environmental changes and damages (e.g. deforestation). The green indicator leverages the environmental component to an extent that some countries with higher GDP but with big environmental issues and flaws are outranked by other countries that although have a lower GDP reflect a better situation of the environment.

The green GDP indicator is rooted in the welfare economics. Some of the most important externalities that are taken into consideration within this indicator are: noise, air and water pollution, soil erosion, depletion, the drying of water basins, fragmentation and loss of biodiversity, radioactivity and various toxins that affect health. Recalculation of the GDP in order to incorporate the above mentioned externalities is not very simple, as it involves a different set of prices in the economy. For this reason, up until now there have been just few empirical exercises aimed at estimating the sustainable GDP.

The most popular indicator associated with the green GDP is Hueting's Sustainable National Income (SNI), which was developed for the Netherlands (Gerlagh et al., 2002, pp. 157-174) following the conceptual work of Hueting (1980, pp. 1-257). This can be seen as reflecting the concept of sustainable income with the assumption that individuals are feeling better if surrounding vital functions remain indefinitely available. SNI uses a general equilibrium model in order to calculate the impact on national income caused by imposing sustainability for the most important environmental themes.

Data on the abatement costs associated with these environmental issues are integrated into an existing general equilibrium model and adapted in a specific way. This approach claims that environmental degradation value equals the cost of conservation. El Serafy (2001, p. 193) criticized this method, arguing instead for the user cost method, which would lead to higher sustainable revenue, where the difference will depend on the rate of depletion of natural resources. He emphasizes that a static general equilibrium is required whereas some of the constraints of sustainability related to nine environmental issues are so interrelated that technical measures would not be able to achieve.

Sustainable GDP was often criticized for its gaps. For example, some critics stress out that it is very difficult to quantify in monetary terms the values involved in diminishing the traditional GDP. It lies in the difficulty of valuing certain environmental assets that are not actually traded on the market and have not a value determined on this or they are non-negotiable. If the evaluation is done indirectly, there is a possibility that these calculations to be based on speculation or theoretical assumptions, that could be very far from reality.

### ***Genuine Savings***

An important measurement that targets the intertemporal problems is the Genuine Savings (GS) indicator. GS measures how the total capital stock of a nation changes year by year. The total capital encompasses all those assets from which the population obtains welfare directly or indirectly. GS is made up of produced capital (infrastructure, machines, buildings, etc.), human

capital, social capital and natural capital (Hanley et al., 2015, p. 780). The last component is represented by non-renewable and renewable resources such as coal/oil/natural gas reserves and forests, ecosystems and the global climate system. Some parts of the natural capital values are priced by the market (e.g. oil, timber, salt deposits), while some other parts cannot be fully quantified (e.g. air and landscape quality, biodiversity). This inconvenient is a real challenge for all the indicators that try to incorporate the environmental component.

GS is based on the assumption that all the forms of capital – produced, natural, human and social – can be aggregated in monetary units and are perfectly interchangeable in terms of maintaining welfare over time (Greasley et al., 2014, p. 171). These theoretical postulates support the theory of weak sustainability, unlike the strong sustainability theory that denies the possibility of aggregation of monetized values for all types of capital and the possibility of replacing them indefinitely.

Boos (2015, p. 4176) highlighted that the GS is the most useful indicator in terms of monetary sustainability and therefore could serve as a complement to other economic indicators. Some years ago the Genuine Savings has been adopted by the World Bank as a central indicator under the name “adjusted net savings”. Adjusted net savings may be defined as traditional net savings, but subject to a number of corrections. The World Bank calculated the value of the GS for most of the countries in the world. The results show that, in general, GS is at less than half the value of gross savings made by a country (World Bank, 2006, pp. 163-168).

Although the GS is considered to be by far the most developed indicator for measuring welfare, it is facing a lot of criticisms from the academic as well as professional world. The main disadvantage of the GS indicator is considered the fact that natural capital losses are not considered alarming, as long as they are offset by produced and human capital (weak sustainability). Moreover, a positive value of the GS is not always encouraging, because it does not always reflect environmental sustainability. Other important disadvantages are related to the methodology of quantifying the “immeasurable” components, especially those from the natural resources chapter (mentioned above). More than that, researchers criticize the GS for the over-simplistic methodology, considering that it is not possible to measure environmental and economic changes in one indicator. Another disadvantage is related to the partial perspective of this welfare indicator. As van den Bergh and Antal (2014, p. 7) mention, the GS indicator neglects the historical contexts. They also explain that a country that has wasted all its natural resources can register with difficulty a negative GS afterwards.

### ***Human Development Index***

The Human Development Index (HDI) of the United Nations, is another type of welfare indicator that accounts for the average performance registered in the three key dimensions of the human development: quality of life (health), education and standard of living. The HDI is calculated using the geometric mean of the values resulting from each of the three dimensions. As opposed to the previous types of indicators, HDI is not expressed by a monetary value.

The wellbeing dimension of the HDI is measured by taking into account the life expectancy at birth while the education component is calculated by considering the average years of schooling for adults and expected years of schooling for children of school age. The standard of living component is rooted in the gross national income per capita (GNI). The resulting values for the three dimensions of the HDI are then aggregated into a composite index, using geometric mean. The final result of the index takes a value from 0 to 1. The HDI approach has a strong arbitrary character given the arbitrary selection of the components and the arbitrary aggregation procedure.

From our point on view, the main disadvantage of HDI, compared with other indicators, is related to the complete neglect of the environmental component. The human wellbeing cannot be measured without taking into consideration the quality of water or air, radioactivity and various toxins that affect health or even the degree of deforestation. Despite the disadvantages mentioned above, HDI is considered to be an improvement over the GDP, especially for the assessment of changes in the developing countries.

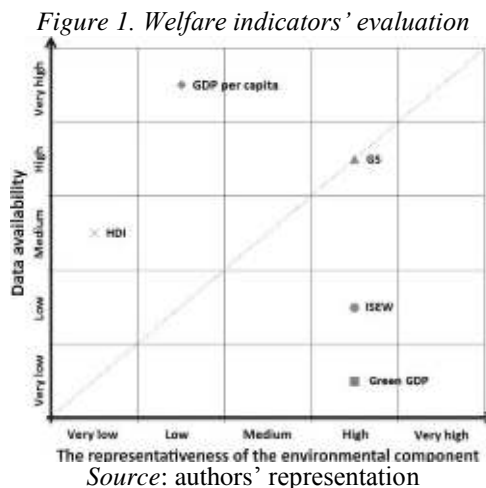
#### 4. Conclusions and final remarks

The findings of this paper revealed that all the analysed welfare indicators are far from being perfect. Moreover, the indicators are constantly criticized with regard to their composition or methodological approach. On the one hand we have the GDP per capita and Human Development Index which almost entirely neglect the environmental dimension of the welfare, are not really representative and have various miscalculations. On the other hand, we observed that “green” indicators have an unclear or a simplistic methodology, are built on strong arbitrary variables or cannot totally gauge the environmental component.

Given those mentioned above it’s pretty hard to emphasize a leading indicator that will facilitate the measuring of sustainable welfare. In order to have a clearer image of the differences between all the analysed indicators, we have tackled the indicators by applying two filters: the first takes into account the environmental dimension of sustainable development and gauges the representativeness of the environmental component within the welfare indicator, and the second derives from the need of the statistical data and is represented by the data availability. All the indicators are assessed on a scale from “very low” to “very high” for both filters.

For a clearer visualised comparison among the indicators we decided to represent the results on a two-dimensional graph (see Figure 1). The indicators with a high environmental representativeness can be found on the right side of the graph, while those which neglect this component or underestimate it should be positioned on the left side. With regard to the data availability we can observe that the upper side of the graph is dedicated to those indicators with a large availability, in contrast with “hard to find” welfare measures positioned in the lower side.

Analysing Figure 1 we can notice that indicators with the weakest representativeness of the environmental dimension are the GDP per capita and Human Development Index (left hemisphere of the graph). Although their large availability (being positioned in the middle and upper limit of the graph) and the involvement of globally important institutions in their estimation, these indicators underestimate the importance of the environmental dimension when assessing the level of welfare. Thus, GDP and HDI are almost useless when it comes to analyse the welfare of a country/region from a multidimensional perspective, including the environmental dimension.



On the opposite side one can see the ISEW and the green GDP as having a high representativeness of the “green” component but with a low availability of the statistical data (lower limit of the graph), making almost impossible the ranking and comparison of various different countries. Even though these indicators fit with “the portrait” of the sustainable welfare indicator, the lack of statistical estimations makes them useful only for country case analyses. Even if this study revealed that all analysed welfare indicators are far from being perfect, we would like to emphasize the indicator that converges towards the concept of sustainable welfare. The Genuine Savings indicator adopted by the World Bank as a central indicator under the name “adjusted net savings” is distinguished by a strong representativeness of the environmental component as well as by a high availability of the statistical data. Moreover, GS is a balanced indicator which arises from its positioning on the

bisector of the graph (the diagonal line that divides the chart into two equal parts).

We are aware that this indicator requires many improvements, but at the moment it is the most appropriate tool for measuring the sustainable welfare and has a very good prospect for constant amelioration under the umbrella of the World Bank.

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## Experiential Business English Teaching

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### Abstract

*The present paper is aimed at undergoing a contrasting analysis of two different types of trainees, represented by students and professionals, both categories having the same status as language learners of Business English training courses.*

*Generally speaking, individualized teaching-learning strategies are shaped based on non-formal education content, which involves facilitating teamwork and an interdisciplinary approach.*

*Learning through experience helps learners develop skills necessary to adapt in the work environment. Thus, simulated and real situations can be contrasted and turned into an object of analysis.*

*My conclusion is that experiential learning opposes traditional education because it starts with practicing a skill, analyzes the practice and then repeats the practice at a more complex level.*

**Key words:** teaching strategies, experiential learning, Business English, collaborative learning, case study

**J.E.L. classification:** I 25

### 1. Introduction

Identifying appropriate teaching and learning strategies that emphasize particular types of business communication in a specific context is what the present paper aims at. To this purpose, it takes into consideration, on the one hand, the increased interest in Business English training programs and, on the other hand, various types of learners and their needs for a specialized set of communication skills and knowledge which are required in the workplace.

### 2. Types of learners

Business English learners can be categorized into three types:

- pre-experienced learners, a category which includes students at business schools, not yet in work;
- low-experienced learners, who are junior company members or learners changing jobs;
- job-experienced learners, who are in work and need Business English for a broad variety of reasons.

Obviously, students need to attend business language courses to prepare for their future working life in the business field. Consequently, the types of English courses offered by universities are targeted at the kind of work the students will later be engaged in: finance, accounting, banking, marketing or tourism. Of course, they will differ in terms of the kinds of language knowledge and skills required. Low-experienced and job-experienced learners have to use Business English so that they could achieve more in their jobs. Since English is the language of business worldwide, many professionals are willing to learn/ to improve their Business English.

The high degree of globalization is largely due to the advances in the fields of communications,

politics, media, military and, last but not least, economy. As a consequence, English language has achieved a dominant status (Nadrag, Buzarna-Tihenea, 2013, p.135) The globalization of the world economy forces European companies to remain competitive and to enroll their non-English employees in Business English communication training programs.

A greater demand for additional business language education is generated by mergers, takeovers, or relocation. Business English skills are important to a large category of professionals, such as: executives with new international responsibilities, accountants, IT, people who are interested in building skills to qualify for a promotion.

As already stated, the language courses for low-experienced learners largely depend on the type of business they are involved in, their job requirements. That is why the trainer must assess the company needs, the learners’ needs and their expectations.

Nowadays, particular emphasis is put on training in both written and oral communication skills, and also on specialist vocabulary items. That is the reason why the language courses provided tertiary education are supposed to help students develop the skills they will need to enter the business world in an effective way. First, students are introduced to the theoretical background of business communication, second they are encouraged to use the theoretical constructs of lecture materials to research various ways of communication by means of

- case studies;
- problem-solving tasks;
- projects and
- reports.

### **3. A theoretical approach to experiential learning**

The strategies used in traditional education are replaced by non-traditional techniques based on active learning which can play a significant role in preparing students and professionals for their future career goals. The heart of all learning lies in the way people process experience, their critical reflection of experience. Learning is a cycle that begins with experience, continues with reflection and leads to action. According to David Kolb, in his *Experiential Learning: Experience as the Source of Learning and Development*, there are four cycles of learning:

- concrete experience;
- reflective observation;
- abstract conceptualization and
- active experimentation.

The specialist defines experiential learning as a “process whereby knowledge is created through the transformation of experience” (Kolb, 1984, p.72) because his belief is that concrete experience motivates the learner to reflect on that experience and then test the concepts by actively experimenting with the world.

This idea of learning through direct experience is also promoted by John Dewey. He states that “Experiential learning takes place when a person involved in an activity looks back and evaluates it, determines what was useful or important to remember, and uses this information to perform another activity” (Dewey, 1963, p. 86). He is one of the first to emphasize that learning should be grounded in experience and offers a theory of education based on the need of understanding the nature of experience. His experience learning model has five stages:

- experience the activity;
- share the results, reactions and observations publicly;
- process by discussing, looking at the experience;
- analyze and reflect, then
- generalize and apply what was learnt to a similar or different situation.

The importance of people being actively immersed into the process of learning is also stressed by Kurt Lewin and Jean Piaget.

#### **4. Practical benefits of experiential learning**

The experience learning models can be adapted to training courses for professionals who have already passed through the first phase of experiential learning. By reflecting on previous work experience, they can improve their business communication skills. This stage of concrete experience allows professionals to link concepts and practices to the Business English course. Given their age and experience, adult education practices can move beyond the traditional model of teachers as knowledge-suppliers and learners as passive recipients. Instead, learners become knowledge gatherers and knowledge creators. At the critical reflection stage, professionals may be asked questions about their experience in terms of previous activities. Once the discoveries are made, they are asked to reflect on their experiences and thus new skills can be developed. At the abstract conceptualization stage, learners are prompted to find answers, make generalizations and draw conclusions. Further on, learning takes an active form in the phase of active experimentation. At this point, they can test what has been learnt in new and more complex situations.

It can be concluded that active learning based on reflections on professional experience allows adult learners to link their concrete workplace experience to theoretical understanding, which is then turned into classroom experience.

As far as students are concerned, this approach has some drawbacks: as they lack previous business experience, their knowledge is only theoretical, based only on books and class instruction. The deficiencies in workplace experience can be remedied by networking with local businesses and integrating them into classroom projects. In order to gain access to the information they need, students are advised to choose companies they are familiar with, a family business or a company where a friend or a relative works. This projects have at least two benefits: first, they provide the benefit of getting the students out of the classroom into real business environment and, second, these projects introduce them to future career opportunities.

Experiential education can be implemented in group-based learning projects which must be presented by students clearly and professionally in the form of displays and portfolios. Such projects and presentations represent useful ways of blurring the boundaries between classroom and the workplace. The tasks set as teamwork may include several stages: the research phase, where students become acquainted with the topic using techniques such as brainstorming, the problem-solving stage in which they are requested to make decisions. Next comes the writing stage when the presentation is drafted, the material is organized, visuals are introduced. Collaborative writing can prepare students for the workplace type of activity where multiple writers and readers help shape a document keeping within time limits. Last is the presentation stage which encourages students to exercise their oral communication skills and deal with live audience.

Collaborative learning is also an aspect that Business English training programs should also focus on. As adult learners, business people are more receptive to an active approach to learning than students, since their cooperative skills have already been acquired in their daily activity, as part of their careers. This cooperative learning experience, which is defined by specialists as a method used for instruction where students “learn techniques for analyzing, interpreting, negotiating and communicating their information as a team”(Adams, Hamm, 1996, p.121), stimulates critical thinking, develops leadership and interactive social skills.

#### **5. Case studies**

As far as student courses are concerned, another way of bridging the gap between the classroom and the business environment is the case method. When using this approach, instructors provide students with a story or a scenario of a real business situation. This case describes a problem and a place where the student is placed in a situation to participate by resolving it. The student assumes that (s)he is the protagonist of the case: drafts a memo, a letter or a fax to persuade a person of authority, responding to the situation which is frequently at a crisis point.

Given the students' lack of experience, cases require only minimal business background. If the cases are conceived for professionals, they may describe complex situations due to their previous knowledge in the field. Nevertheless, no matter who the target learner is, these cases should suggest multiple solutions, so that learners could profitably discuss the issue across a range of possible



solutions. Such open-ended situations are more in keeping with the typical problems of the workplace and offer more realistic practice.

Case studies are an effective way of teaching Business English to students and professionals as they help them improve their communicative competences by practicing a specific skill such as negotiating, interviewing, problem-solving, decision-making or preparing a presentation. Additionally, case studies improve the students’ organizational skills as they can be quite dense in information. Last, they enhance the students’ written and oral communication skills and train managerial communication skills such as holding a meeting, negotiating a contract, giving a presentation. To conclude, case studies involve students into real-life situations which require them to become involved in business communication.

## 6. Conclusions

As argued in the previous sections, experiential education might help both types of trainees—professionals and students—turn from passive recipients into active learners. Teachers should expose them to a variety of workplace documents that can be analyzed and used as patterns. This strategy can be used effectively with professionals who can bring in examples of documents from their own workplace for discussion and analysis.

While job-experienced learners may find these examples more important for them than examples taken from textbooks, students may encounter difficulties in this process of document modelling, largely because they are not familiar with them. Since the transition from academic textbooks to real documents is often a difficult one, an effective way to expose students to these types of documents is to ask them to conduct a research project to develop a ‘speaking’ and ‘writing’ a profile of a professional as part of the local business integration projects. On this occasion, students have the opportunity to interview professionals about the strategies they have developed for completing their tasks. This interactive method may reveal similarities, as well as differences between the classroom education and the workplace reality.

To conclude, unlike traditional education in which teachers and learners describe, analyze, apply and then implement new learning, experiential teaching and learning proceed from practicing a skill, analyze the practice and then repeat the practice at a more complex level.

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## Is Romania Ready for Cooperative Structures? Romania – Italy Comparative Study.

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### Abstract

*The new European and global policy emphasis on creation and developing cooperative structures in the agricultural sector as the best way to overcome the gaps between rural and urban. While northern countries talk about the reforming of the cooperative system and introducing new management models for it, in south Europe the system still has great social and economic results. There are still countries, like Romania, where the system had to be started over many times in the last century, which led to today 'situation when the cooperative system is almost inexistent.*

*The paper aims to analyze how much the Romanian rural area is prepared to integrate into its way of functioning a cooperative system by comparing to Italy, a country with history close to Romania, but with a cooperative system as the base of agriculture.*

**Key words:** cooperative structures; education; rural area; proper development; agriculture.

**J.E.L. classification:** Q22; Q13; Q15; R23

### 1. Introduction

The objective of this paper is to compare the Romania's situation regarding the infrastructural preparation for setting up a cooperative system and for the participation of the rural areas of the international economy with Italy's situation. Italy is a country with experience in the cooperative history and has the agricultural sector built on cooperatives.

The cooperative structures are considered to be the proper form of ensuring a sustainable development at international level. In this context, Romania has a rather dry image, with a very small number of such structures, so I wanted to see what are the possibilities that Romania has for supporting a cooperative system by comparing it to another country. I chose Italy not for the high performances of the cooperatives or for their large number, but for the power they transfer to the farmers and because of the high standards they set for the training and knowledge requested from a farmer and also the incomes received by them.

The first cooperatives started in Italy at the same time, the ones in Romania did, both encountered political barriers from the fascists and communists. The differences start to occur after the Second World War, when in Italy, the cooperatives, gained the support of the political regime. The Italian cooperatives are not an international success, as the northern ones are, but they are proof that this type of structures are able to meet the EU's agenda: to reduce the gaps between rural and urban, to raise the living standards in rural and to turn farmers in active parts in the new knowledge transfer economy. I considered the comparison to Italy better than the one with Holland or other country because of the steady rise of the sector and not a skyrocket one.

### 2. General frame of the two countries

The first thing that comes to mind when one observes the two countries is the high discrepancies between rural and urban in Romania and the fact that Italy doesn't have these kind of differences, not even in national statistics. Studies show that Italy is one of the countries with high yields thanks to the cooperation between local actors and to the support of innovative ideas. The

property of an Italian farmer is not bigger than the one of a Romanian one, the fact that Italians work together is the missing piece of the Romanian puzzle. For example, the average utilized agricultural area of a cooperative in Veneto region is approximately 700 ha (Miron A., 2014, pg. 89). It is important to mention that all these structures function of the law and all of their relations (between members, members and cooperative or between cooperatives) are well separated and respected. They function with the guidance of an agricultural engineer and they have an administrative structure so they are direct actors in the market (Borzaga C., 2008, pg. 4). Meanwhile, Romania has set several plans to develop local communities with the help of Local Action Groups and to set up consultancy and advice for the farmers (<http://agrintel.ro/42921/prioritatile-guvernului-dacian-ciolos-pentru-agricultura-pac-comunitate-rurala-procesare-si-pomicultura/>) in order to raise the number of cooperative structures. The number of official cooperatives in Romania was in 2013, the moment of the last counting made by the National Institute of Statistics, only 66 (Statistical Annuar, 2015).

In a time when global worries head to eradication of extreme poverty and finding solutions for feeding a growing population while maintaining a sustainable development (The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, 2015), two types of countries can be observed: those who invest in developing new ideas and solutions (as in education and research) and those who have an amazing potential, but who miss the solutions for turning that potential into an advantage.

As a study method I will use a quantitative analysis of the data provided by the EU’s database and also by Romania and Italy’s national databases correlated with other studies made on this topic. Logical deduction will be used in explaining certain patterns that follow from the analyzed data. The study will not expand on a period of time, but will show an X-ray of our time as a starting point for developing new strategies for helping the Romanian rural area.

The initial hypothesis is that Romanian rural area misses basic infrastructure, education and health, that could allow the population to aspire to better life conditions and ensure the possibility to achieve those aspirations.

## 2.1. Educational base

According to Professor Dumitru Sandu, education stock is a major factor in determining the wealth of a commune. His studies show the importance education has in a community’s development by the open-mindedness that it creates and by ensuring the understanding of needs and opportunities both personal and common. That is why I choose to compare the differences the educational infrastructure given by Romania and Italy in order to see if there are gaps in the basic level of development for Romania.

Table no. 1: Educational indicators

	Romania			Italy		
	Kindergartens	Schools (primary + secondary )	High schools	Kindergartens	Schools (primary + secondary )	High schools
2013						
Number of units	1187	3945	1732	24036	25563	8150
Number of children enrolled	568659	2649040	897963	2825400	4605158	2652448
Number of teachers	35433	184372		92498	424871	248385
Total population	20020000			59685000		
Enrolled in one unit	479,07	671,49	518,45	117,55	180,15	325,45
Number of pupils per teacher	16,05	19,24		30,55	10,84	10,68
School population (%)	20,56			16,89		

Source: [www.insse.ro](http://www.insse.ro) – tempo online – educație and <http://dati.istat.it/?lang=en> – education

Although the total population of the two countries majorly differs, nearly triple in Italy, we see that the ratio is not respected in terms of educational infrastructure, Italians pay much greater importance to the existence of sufficient schools for all ages. The situation is repeated in terms of the number of teachers available in schools, Romania is underprepared in this regard also. Despite the load of pupils per teacher is much smaller in Romania for kindergartens, this doesn't come from a sufficient number of teachers, but from the low number of children enrolled in this category, the preferences and standard of living of the Romanians leads them to other care solutions for preschoolers. The proportion changes for the following school cycles, the low number of teachers is recognized to be a national problem in Romania. The Italians have one million more children enrolled in high schools and even so the load per teacher is lower than in Romania. That gives the teacher more time for each student and so a better care for each one's development.

The percentage of the school population in lower in Italy due to the migration phenomenon, Italy in a preferred destination for working Romanians while their children remain at home.

*Table no. 2: Public expenditure on education*

	2009 (mill. PPS)	2010 (mill. PPS)	2011 (mill. PPS)	2009 (% compared to GDP/inhabitant)	2010 (% compared to GDP/inhabitant)	2011 (% compared to GDP/inhabitant)
E.U. (28)	635930,1	662028,3	663029,3	27,4	28,0	26,9
E. U. (27)	633095,9	659311,3	660293,4	27,4	28,0	26,9
Italy	68922,5	67263,3	66425,4	25,8	24,7	24,0
Romania	10078,2	8846,2	7970,6	21,6	18,7	17,5

*Source: Eurostat database – statistics A to Z - education – total public expenditure on education in million PPS and annual expenditure on public and private educational institutions compared to GDP per capita*

One can observe that both countries stand below the European average regarding the GDP/inhabitant percentage spent on education. Even so, Romania stands much lower than Italy, with a difference of 10% below the EU average, while Italy has a minus of 3%. By correlating this information with those already known, like the GDP/inhabitant in Romania being much lower than the EU average, the total result would be significantly lower than the result of Italy.

Also, school facilities are very important, and by personal observations, the Italians give lots of attention to what a school has to offer for its pupils, while in Romania this remains an unspoken topic, especially in rural areas.

## **2.2. Farmer training**

Because the initial hypothesis refers to how prepared are the farmers for adopting cooperative structures as an organizational form and a way of accessing the international market, I see a comparison by degree of training in the agricultural sector of the farmers as fit for further discussion. There needs to be mentioned that in Romania, owner, farmer or farm manager may usually be the same person. It can be observed from the following table that the situation regarding farm managers training is totally opposed. In Italy, more than 90% of the managers have basic training in agriculture, while in Romania more than 97% of the managers rely only on their experience in order to run their business. This can be seen as a psychological barrier for association and cooperation, one can't give up his own hard gained experience to economical or technical indications that come from a cooperative manager, no matter how good they are. It would mean giving up on his own person. Another barrier is the financial one, such a trained cooperative manager would need payment, while personal experience is free and confers moral autonomy.

Table no. 3 Agricultural training of farm managers

	Total (number of pers.)	Practical experience (%)	Basic training (%)	Full training (%)
E. U. (27)	12247850	71	22,1	6,9
Italy	1620880	5	90,8	4,2
Romania	3859040	97,5	2,1	0,4

Source: Common context indicators for rural development programs (2014-2020), C24 - [http://ec.europa.eu/agriculture/cap-indicators/context/2014/indicator-table\\_en.pdf](http://ec.europa.eu/agriculture/cap-indicators/context/2014/indicator-table_en.pdf)

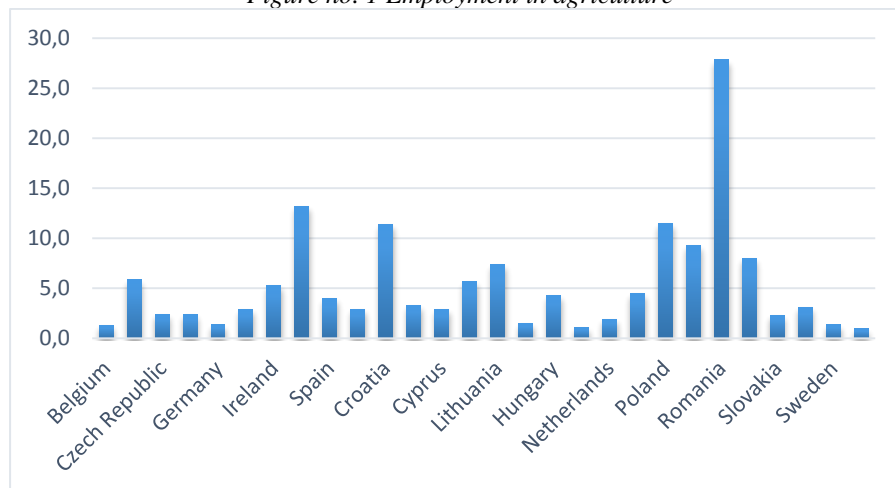
### 3. The economic situation of the two countries

After the educational indicators, those that give some explanations for the problems Romania has at this time when speaking about performing the tasks given by the E.U. And also those that define a sector that needs great investments in order to overcome the differences between the two states. Knowing that Italy is not one of the richest countries in the E.U., I want to see where Romania stands compared to it.

The first indicator that will be compared is a GDP/inhabitant. In Italy that indicator is 25.600 euro, only 100 euro lower than the European average, in Romania the same indicator is 7.119 euro ([http://ec.europa.eu/agriculture/cap-indicators/context/2014/indicator-table\\_en.pdf](http://ec.europa.eu/agriculture/cap-indicators/context/2014/indicator-table_en.pdf) , C08) about three times less than Italy. This indicator only supports the negative image Romania has, not only in the agricultural sector, but in every other.

In Figure 1, another disturbing factor can be observed, the employment in agriculture in Romania is higher than in any other country in the EU, more than 27% ([http://ec.europa.eu/agriculture/cap-indicators/context/2014/indicator-table\\_en.pdf](http://ec.europa.eu/agriculture/cap-indicators/context/2014/indicator-table_en.pdf) , C13). This can have several meanings, one of them is the incapacity of agricultural workers to take other jobs, another is the lack of technical progress in agriculture that has to be compensated by manual labor and so on. No matter the explanations, they all have a negative turn. By comparison, Italy has less than 5% of the population employed in agriculture.

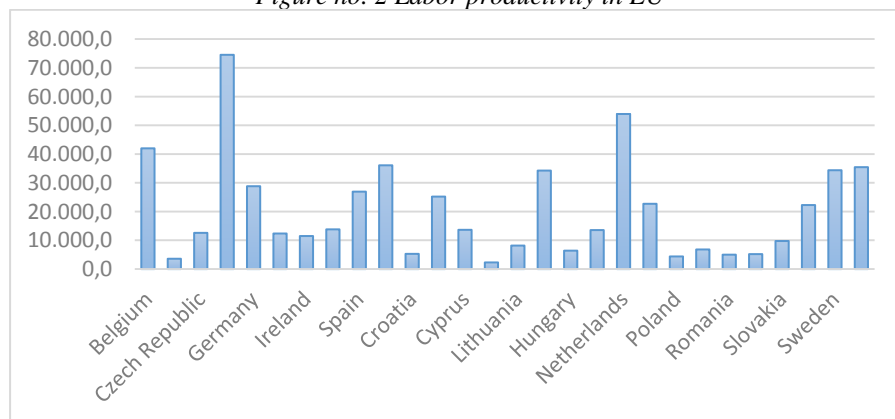
Figure no. 1 Employment in agriculture



Source: Common context indicators for rural development programs (2014-2020), C13 [http://ec.europa.eu/agriculture/cap-indicators/context/2014/indicator-table\\_en.pdf](http://ec.europa.eu/agriculture/cap-indicators/context/2014/indicator-table_en.pdf)

Labor productivity is another topic where Romania hits a low position in the European ranking. As it has been said before, the potential of Romanian agriculture is very high, yet unexploited. In figure 2, the situation of labor productivity in the EU shows that Italy is close to the average, while Romania has a much lower productivity.

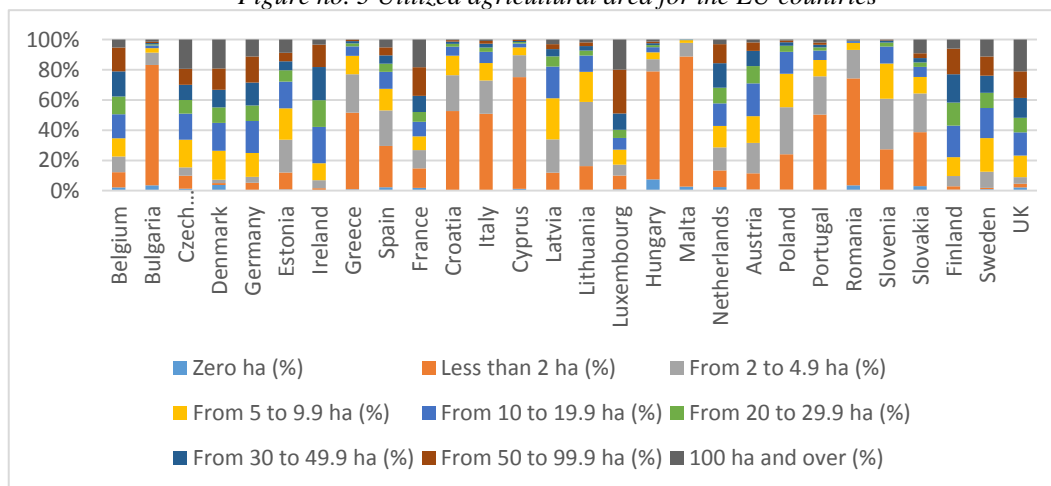
Figure no. 2 Labor productivity in EU



Source: Common context indicators for rural development programs (2014-2020), C14  
[http://ec.europa.eu/agriculture/cap-indicators/context/2014/indicator-table\\_en.pdf](http://ec.europa.eu/agriculture/cap-indicators/context/2014/indicator-table_en.pdf)

In order to talk in terms of profit, competitiveness and active participation in the market, as regards agriculture, the matter of yield correlated to the utilized agricultural area must be explained. A small area used by a farm will create high spending on the one side and low results on the other.

Figure no. 3 Utilized agricultural area for the EU countries



Source: Common context indicators for rural development programs (2014-2020), C17  
[http://ec.europa.eu/agriculture/cap-indicators/context/2014/indicator-table\\_en.pdf](http://ec.europa.eu/agriculture/cap-indicators/context/2014/indicator-table_en.pdf)

As well as Romania, Italy has a significant percentage of small farms, of less than 2 ha, yet we must not forget the importance of cooperatives. As mentioned before, Italy is a country that relies on this organizational structure, while Romania maintains a low number of cooperatives. Italy has 3007 cooperative structures in agriculture (<http://dati-censimentoagricoltura.istat.it/?lang=en>), while Romania has 66, according to the latest data provided by the National Institute of Statistics. The same agricultural area, exploited by Italian and Romanian rules gives significantly different profits, yields and advantages for the Italian farmers.

#### 4. Conclusion

The analysis carried out on some suggestive indicators, from my point of view, the state of the education system and the economy of the two countries, confirmed the initial hypothesis. Romania is not ready at the grassroots level to create such organizational structures in agriculture. No matter how natural such a structure may seem for researchers, or what great benefits it may offer to its members, we must admit that the Romania’s rural area faces deep social problems that prevent the natural creation of these structures, including psychological ones provoked by the communist approach on cooperatives. For such problems to be overcome, the implication and dedication of the authorities must be complete, more than that major investments must be made in order to create the wish for a better life with people that lack most of the basic utilities of life.

The paper summarizes the main problems regarding the preparation stage of Romania when it

comes to align to western EU countries. While Italy has many problems, there are nowhere close to Romania’s problems. The solution proposed by the EU for Romania, and not only, comes in the form of cooperative structures, but it misses the know-how gathered by the first members of the EU in decades and it misses the proper investment strategy.

The limits of the paper stand in the minimum of indicators compared and it stands as a beginning for a much deeper analysis.

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## **Impact of Research Regarding the Processing of organic waste resulted from food industry in the North - East , South-East and Center Regions of Romania in Particular, in Relation to Consumer and Environmental Protection**

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### **Abstract**

*The paper aimed to estimate the social impact on the quality of the environment, with the presentation of the advantages that we envisage for the population of the North-East , South-East and Central Regions of Romania. This research was regarding the regeneration of organic waste from the food processing. The study has followed the dynamics of organic waste during the period 2011-2014, waste management at the level of the communities and the transformation efficiency of Regional organic waste into useful materials.*

*To investigate the effectiveness change of waste food we study the communities in Iasi, Suceava, Neamt, Vaslui, Bacau, Botosani, and some communities in Constanta, Tulcea, Buzău, and the communities in Alba Iulia watching: data recorded by the Agency of Environmental Protection.*

*Calculation of indicators: level of air contamination, level of CO<sub>2</sub> and anothers, level of water contamination and soil in the Regions of Romania and the efficiency of the regeneration.*

**Key words:** organic waste, food processing, household consumption, public nutrition

**J.E.L. classification:** L 66, Q13.

### **1. Introduction**

Between 2009-2014 Consumer Protection Association from Romania has setting as main directions of interest, carrying out activities in the following areas: collective actions, contracts made by consumers, digital rights, food and food safety, health, financial services, energy sustainability. Furthermore, consumers in Romania can be found in the situation as a population less than informed, least protected as a result of lack of Consumer Protection Association from Romania and the National Authority for Protection of Consumers, the National Institute of Public Health to reduce risk factors relating to environmental quality, affecting the health status of the population.(for example: contamination of air, water and soil with organic waste and hazardous waste which are easily perishable). (A.N.P.C., 2014)

### **2.Experimental**

So that, we analyzed the current stage of the resulting waste in food, nutrition, health and domestic consumption of the population between 2009-2013, as well as the influence of the pollutants. We followed the study directed through monitoring of organic waste and monitoring of



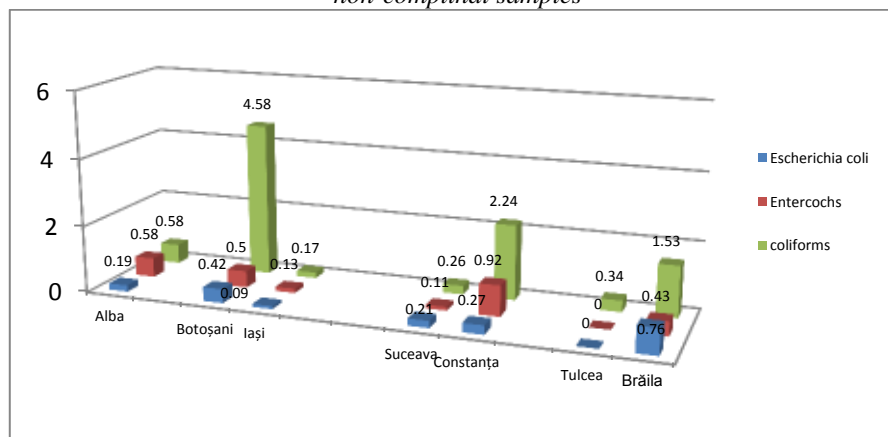
the contamination of air and water with harmful substances. Synthesis and correlation parameters monitoring aimed at highlighting the impact that these indicators influence the quality of life of consumers, who make up the population of North-East Region of Romania, compared to South-East Region and Center Region. The proposed research is justified by the fact that the activities carried out at the National Institute of Public Health at the level of the years 2011-2014 covers the following aspects: they prevented diseases associated with risk factors of living environment, identified new risk factors from the environment and proposed preventive measures by means of research, benefits and public health services. Also, they are implemented programs of intercomparare laboratories for the quality of the drinking water and development of normative documents in specific areas of responsibility harmonization with European legislation in this field. In this work we studied the achieved quality of life indicators and improving their efficiency in economically and socially terms. This objective will have a major impact on the health status of the population, meeting the needs of people's consumption and redusing of risk factors for the health of the population.

Romania shall ensure compliance with the requirements of Directive 98/83/EC, with the interim objectives set out in the Accession Treaty. The data presented refer to drinking water, atmospheric air and regeneration of organic waste from the food processing industry. Thus, the parameters monitored according to law 458/2002 and republished under no.974 H.G.R./2004, in major counties were the following: coliforms, Escherichia Coli, Enterococci, Clostridium Perfringens, total Cyanide, total Cr, Cu, Fe, Ni, Nitrates, Nitrites at treatment station, Nitrites in the distribution network, (NO<sub>2</sub>-NO<sub>3</sub>), Pb, Al, NH<sub>4</sub>., Chlorides, conductivity, taste, smell, colony count 22 ° C and 37 ° C, pH, turbidity, oxidability. (Degeratu and al., 2014; Codreanu and al., 2014)

### 3. Results and discussions

Water pollution. Figure 1. Drinking water taken into the study had not-conformity of microbiological standards and it noted that the level of contamination with Escherichia Coli reached high values in the Brăila County, followed by 0,76 Botosani 0.42, while the level of contamination with Enterobacter is greater for Constanta 0,92, Botosani 0.5 0.58 and Alba.

Figure no.1. Contamination of water between 2011- 2014 with Escherichia Coli, Enterocochs and Coliforms non-complinat samples

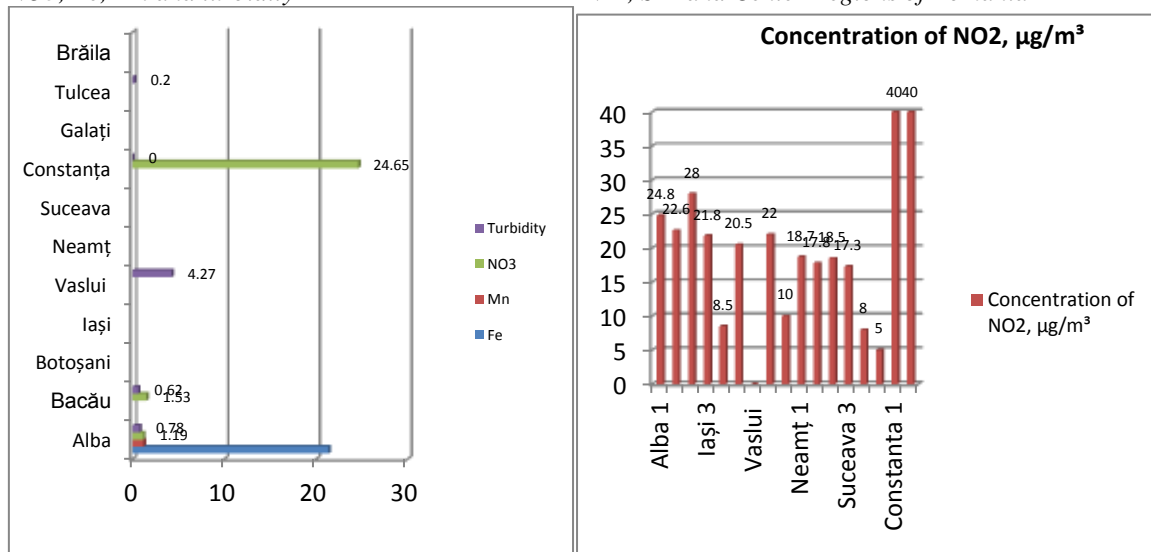


Source: National Reports Regarding the Environmental in Romania 2011-2014

If the level of contamination by coliforms have been on the first place in Botosani 4,58, the second placed by Constanta 2.24, and the third place by Brăila 1,53. The contamination of water with the highest level of nitrites can be observed in Constanta 24,65%, Fe and Mn contamination is at the maximum level at Alba (Fe -21,38% and Mn-1.24%) and the maximum turbidity is registrated from Vaslui of 4,27%.(3) (Figures 2,3). So, the contamination of drinking water with household waste in the three regions of Romania, North-East Region, South-East and Center show that the water contamination exceeds the limits specified in the standards of quality of microbiological contamination(4) with either by Escherichia Coli, Enterococcus, fecal coliforms

(Botosani, Brăila, Constanta), and the limits of contamination with metals Mn, Fe, and nitrites (Constanta, Alba, Vaslui).

Figure no.2. Levels of contamination water with Figure no.3.Average concentration of NO2 in NO3, Fe, Mn and turbidity N-E, S-E and Center Regions of Romania



Source: National Reports Regarding the Environmental in Romania 2011-2014

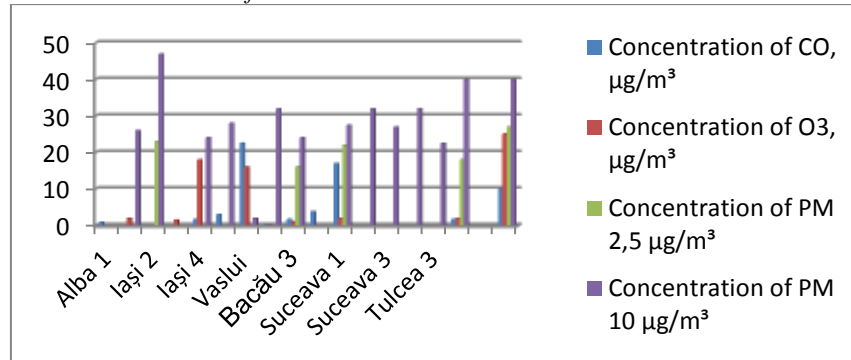
The supply of drinking water from individual sources is presented in more than half of the sample which represent a percentage of 51,3%. of the total number of 639 people who have their own source of water fountain, 237 water consumed directly from the fountain of 37.1%, more a number of 368 people who consume well water but have its own plant with water pump and distribution drinking water through the faucet. The correct disposal of household waste water is an important condition of environmental sanitation, protecting the soil and surface water sources from pollution caused by toxic risk with detergents, disinfectants, insecticides as well as pathogens the most part of intestinal origin. The presence of a septic tank for domestic waste water collection occurs in a number of 431 people, or 34,6% representing housing from residents included in the sample. Water pollution is a process of deterioration of the quality of physical, chemical or biological harmful substances, produced by a human activity, the waters become unfit for use. (Mali and Shumka, 2013) The biggest impact of surface waters, particularly in regards to pollution by organic substances and nutrients (nitrogen and phosphorus) are the 22 human agglomerations in Romania, with a population of more than 150,000 inhabitants equivalent (i.e.). (A.N.P.M., 2011-2014)

Air pollution is generated by the atmospheric pollutants which in the assessment of ambient air quality are: sulphur dioxide (SO<sub>2</sub>), nitrogen dioxide (NO<sub>2</sub>) and oxides of nitrogen (NO<sub>x</sub>), total suspended particulates (PM<sub>10</sub> and PM<sub>2,5</sub>), Lead (Pb), Benzene (C<sub>6</sub>H<sub>6</sub>), Carbon monoxide (CO), Ozone (O<sub>3</sub>), Arsen (As), Cadmium (Cd), Nickel (Ni), polycyclic aromatic hydrocarbons (PAHs)/Benzo (a) pyrene (BaP), Mercury (Hg). In 2012, the assessment of ambient air quality in Romania registered permanent through 138 stops automatic forming part of the national network of air quality Monitoring (R.N.M.C.A.) and distributed throughout the country.

A more ambitious commitment to reduce emissions of greenhouse gases by 30% (5) can be assumed condition, in 2020, the conditionality linked to the conclusion of a comprehensive and global agreement for the post 2012 period, through which other actors will assume comparable commitments and will coverage of the necessary costs for the less developed Member States (including Romania) of European funding. The starting point for determining the target on the reduction of GHG emissions by 2020 was the study on the development of national and sectoral forecast emissions of sulphur dioxide, nitrogen oxides, volatile organic compounds, ammonia, dust and greenhouse gases in the years 2010, 2012, 2015, 2020. The energy Sector has been estimated at a rate of 39% of the total emissions of CH<sub>4</sub>. The waste sector contributed with 22% and the agriculture sector with 39%. (I.S.P.E., 2011)

Between 2012-2030 these proportions are almost constant. Therefore, these sectors are subject for the measures to reduce the emissions of CH<sub>4</sub>. Contamination of atmospheric air with harmful substances affected the human health as follows: maximum concentration of N<sub>2</sub>O Tulcea station 3, average concentrations at Iasi stations 3, Alba 1 and 3, followed by Bacău, Suceava, 1 si 3, which do not exceed the permissible annual limit. (Figure 3)

Figure 4 - Average concentration of CO, O<sub>3</sub>, PM<sub>2,5</sub>, PM<sub>10</sub> in N-E, S-E and Center Regions of Romania between 2011-2014



Source: National Reports Regarding the Environmental in Romania 2011-2014

Figure 4 shows us that the values of CO in atmospheric air are exceeding the permissible maximum at Vaslui by 22,56 µg/m<sup>3</sup>, after that all values are lower and acceptable compare to standards. O<sub>3</sub> concentration reached highest level in Iasi and Vaslui station 4, but the concentration does not exceed the permissible annual limit of 25 µg/m<sup>3</sup>. If suspended particulates PM<sub>2.5</sub> the highest value was recorded at station 2 from Iasi, followed by Constanta station 1, but has not exceeded the permissible of 27µg/M<sup>3</sup>. Contamination by particles PM<sub>10</sub> suspended indicates that at the Iasi, Constanta was exceeded the limit accepted annually. In Alba county does not recorded other non-compliant situations. Agriculture is the main source of NO<sub>2</sub> emissions (approximately 70% from total NO<sub>2</sub> emissions), followed by industrial processes (approximately 20%). In Romania, the main air pollutants are particulates of nitrogen, oxides and sulphur dioxide. Particulates of small size (less than 10 microns) are the fractions that may have an impact on the population's health, in particular at the level of the upper airway, while those under 2.5 microns in size (breathable). Those can penetrate the pulmonary alveol to level up with irreversible effects both locally and systemically, depending on other pollutants that can be adsorbed on their surface.

Between 1997-2008 13-62% of Europe's urban population has been exposed to concentrations of suspended particulates (PM<sub>10</sub>) in ambient air which have exceeded the limit values for the protection of human health laid down in European legislation.(N.I.H.P.R., 2011-2014)

Figure no.5. Indicators of waste generation in the most important Romania between

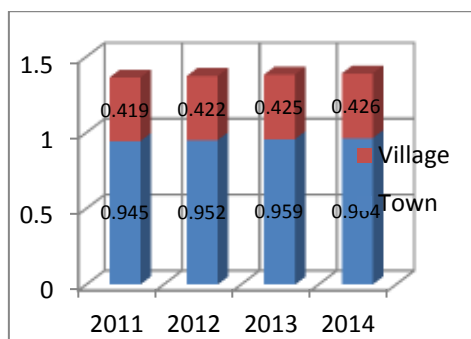
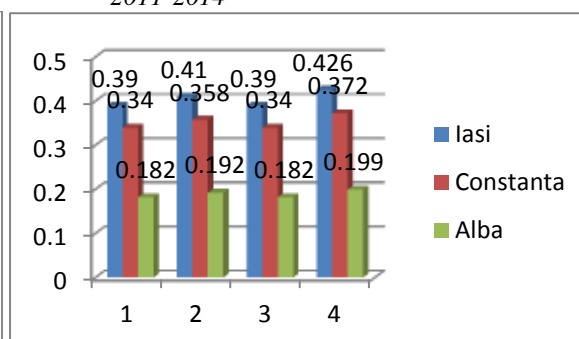


Figure no.6. Quantity of waste generated -tones/head village from N-E, S-E and Center Regions of Romania 2011-2014



Source: National Reports Regarding the Environmental in Romania 2011-2014

The health indicators have given us the monitoring of the cardio-vascular, respiratory diseases and mortality of the people. (Moga and al., 2013) In Figure 5 the development of organic waste generation in the urban environment shows that their level is between 0,945 (2011) until 0,964 (2014) being greater with 55,66% to 55,80% from rural area. (Directive 86-278 CEE)

Figure 6 shows the quantities of waste generated per capita in most major cities in the three regions, noting the change in descending from a higher share in Iasi, compare to Alba. The quantity of waste results in those 4 years was registered an increasing.

Figure 7- Impact indicators of the health of methemoglobinemiy cases between 2011-2014

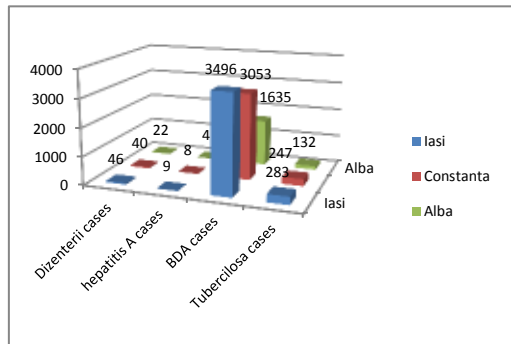
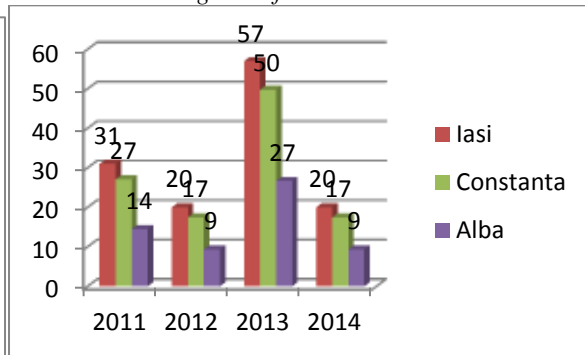


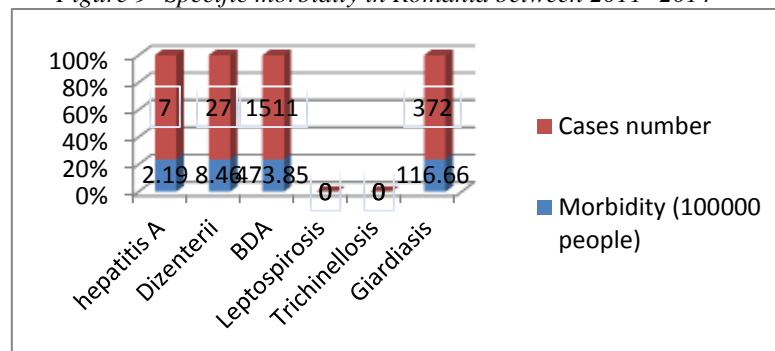
Figure 8- The evolution of Peoplein the North-East, South-East and Center Regions of Romanian between 2011-2014



\*Source: National Reports Regarding the Environmental in Romania 2011 -2014

Figure 7 illustrates the impact of the health indicators of the population during 2011-2014, which is maximum in the case of BDA, the dysentery and hepatitis A. Cases of methemoglobinimiy (Figure 8) is seen an increasing until 2013 where records highest level and then a sudden drop in 2014 and an increasing, too in 2011. (A.E.P. Iasi, 2012) Figure 9. Specific morbidity in Romania between 2010-2014 is accented for BDA type diseases, hepatitis A, dysentery, giardiosis and non-existent for leptospirosis, and trichinosis.

Figure 9 -Specific morbidity in Romania between 2011- 2014



\*Source: National Reports Regarding the Environmental in Romania 2011 -2014

#### 4. Conclusions

In conclusion the evaluation of the quality of the environment and the possible influence on population health identified four priorities: climate change, nature and biodiversity, waste, natural resources and environment, health and quality of life. All environmental facts determinants and their changes will be reflected in the health of the people and thus in quality of life.

- ✓ Level of contamination with Escherichia Coli reached higher values in the Brăila, followed by Botosani, while the level of contamination with Enterobacter is greater for Constanta, Botosani, and Alba. Level of contamination by coliforms ranks firstly in Botosani, secondly at Constance and thirdly position in Brăila.
- ✓ The contamination of water with nitrites can be observed at the highest level in Constanta, Fe and Mn contamination was the maximum at Alba and the highest turbidity was in Vaslui.
- ✓ Contamination of drinking water with household waste in those three regions North-East, South-East and Center from Romania shows that the water contamination exceeds the limits specified in the quality standards of microbiological characteristics with either by Escherichia Coli, Enterococcus, Coliforms in Botosani, Brăila, Constanta and the limits of contamination with metals Mn, Fe, and nitrites in Constanta, Alba, Vaslui.

- ✓ Contamination of atmospheric air with harmful substances affected the human health as the follows: maximum concentration of N<sub>2</sub>O in Tulcea 3, average concentrations at Iasi station 3, Alba stations 1 and 3, followed by Bacău, Suceava stations 1 and 3, which do not exceed the permissible annual limits. (Figure 3)
- ✓ The values of CO in atmospheric air are exceeding the permissible maximum at Vaslui 22,56 µg/m<sup>3</sup>, after that all values are lower and acceptable by characteristic of standards. O<sub>3</sub> concentration reached highest level in Iasi and Vaslui, but the concentration does not exceed the permissible annual limit of 25 µg/m<sup>3</sup>. If suspended particulates PM 2.5 the highest value was recorded at Iasi station 2, followed by Constanta, but has not exceeded the permissible 27µg/M<sup>3</sup>. Contamination by particles PM 10 suspended indicates that at the Iasi, Constanta stations 1and 2 exceeds the limit accepted annually; Alba county do not recorded another non-compliant situations.
- ✓ Between 2011-2014 impact of the population health indicators have had maximum level in the cases of BDA, dysentery and hepatitis A (figure 7). Cases of methemoglobinemy (Figure 8) is seen an increasing until 2013 where record highest level and then a descending level in 2014 up to the year 2011. In Romania, between 2011-2014, specific morbidity is accented for BDA type diseases, hepatitis A, dysentery, giardiosis and non-existent for leptospirosis and trichinosis.
- ✓ Prezently, in Romania health indicators didn't told us more about the health safety of the inhabitants. So that, it is necessary to make in the future an advanced recherche about the corellation of registered medical data from the health system and the data from the parameters monitoring of the environmental.

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## What Is to Be Done to Reduce the Effects of Emotionality and Conflicts on One’s Satisfaction at Workplace

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### Abstract

*The author of this article intends to bring into attention aspects of the correlation between the employees’ emotionality, stress and conflicts at workplace, as well as some suggestions to improve the effects of all this.*

*Since IT development facilitates information analysis and increases decision-taking powers (thus creating new jobs and rendering useless other jobs), people are hired for their skills to perform a temporary role, caused by temporary or unexpected changes in the external world. For the new employees, coming into an organization means an effort to give the measure of their professional competence and to understand and adapt to the environment, to organizational culture, policies and procedures.*

**Key words:** emotionality, conflict, stress, satisfaction at workplace

**J.E.L. classification** M1, M12, M , M54

### 1. Introduction

The myth according to which feelings and emotions don’t belong to business, organizations and professional relations is outdated. One’s adjusting to emotional aspects at workplace is major. A normal phenomenon faced by many young people when they become employees is “the shock of reality” and it’s devastating. It’s caused by the difference (disparity) between their expectations, sometimes unrealistic, and the reality they face at their first workplace. The consequence may be strong dissatisfaction even if there are additional enticing elements related to the employee’s role in the organization. New responsibilities cause frustration and anxiety to new employees.

Not to ignore that negative emotional reactions can be caused by the subordinate status as such. In addition, the employees who are at the beginning of their career feel unsafe about their skills and work ability.

Conflicts at workplace are inevitable in most cases and they negatively influence the employee’s productivity. However, each employee may conceive how to approach them and find the best way to solve them. In their turn, managers can mediate conflicts among their employees and it’s even desirable for them to do it.

### 2. About sources of stress at workplace

It was foreseeable for the changes in the organizational-managerial psychology to be bigger and deeper than the previous ones. Logical to be so, since today’ workforce differs much from the workforce of the past. The educational level of the candidates is higher, the percentage of working women is higher (also of women filling management positions), the nature of work has changed at an accelerated pace (many of the current professions require IT training, the number of part-time jobs has increased). Social and economic changes force people to learn and acquire new skills and competences (multi-skilled), to increase their adaptability to organizational requirements and

changes. To add other issues arising in many organizations: significant staff fluctuation, the return to work of the retired, increased costs with the employees, drug use at workplace.

Muchinsky points out that be the organizational-managerial psychology prepared or not to face these changes, they will anyway take place.

It is obvious that emotions influence life. Although the dynamics of emotions has been studied for a long time (since Ancient times, Aristotle made the difference between *ethos*: persuasion based on the statute of the speaker, and *logos*: persuasion based on the logics of the arguments and *pathos*: persuasion based on the appeal to emotions), for a long time, organizational psychology has not dealt with this topic.

Arthur Koestler wrote: “Emotional reactions seem anacronic for our times: our body goes through an involuntary shudder when we hear a sudden noise, we sweat when we take an exam as if we wanted to release the heat produced during our encounter with the examiner. These anachronic reactions are inherited through birth and can be triggered by certain stimuli acting in low, almost homeopathic dose...the salt grain that should be present in a story to create emotions, is actually a drop of adrenaline.”

The rules of work are undergoing mutations. We are judged according to new standards, not only according to our IQ or professional competences but also according to our behavior towards ourselves and towards the others. The new “criterion” considers skills and technical know-how to be part of the professional activity and focuses on personal qualities: initiative, adaptability, empathy, persuasion. It is not a temporary whim or a temporary managerial recipe; research has revealed that personal qualities is the ingredient of an excellent professional activity – especially in the case of a leader -, and to understand how these skills can be cultivated may be major for ensuring satisfaction in work.

Wayne Leon Payne considers that emotional intelligence is a skill that implies a creative relation with fear, pain and desire. The first accurate definition of emotional intelligence was published by Peter Salovey and John D. Mayer in 1990: they believe that emotional intelligence implies the skill to perceive emotions and to express them as accurately as possible, to have access to or to generate feelings when they facilitate thinking, and to understand emotions and regulate them in order to promote emotional and intellectual development; in 1997, the two researchers updated their definition with the idea that “emotional intelligence means also the ability to understand emotions, assuming that emotions and known and regulated in such a way that they contribute to intellectual and emotional development”.

P.P. Neveanu, according to Mihaela Roco, underlines that emotions are those judgments that we make about the world and imply an assessment made by the individual on the significance of an event or a situation. This assessment depends on factors related to the individual’s cultural background and personality, on the way in which an individual perceives a situation. The emotional propensities that are relatively stable and formed by what we think and feel about an object, situation or person are the attitudes. Attitudes often influence our behavior towards situations and people. For instance, if someone finds that: “I dislike my job” (attitude), most probably “will look for another job” (behaviorism).

Occupational burnout is a major source of stress. Not only overwork but also a lot of constrains on the individual’s professional life that make the individual feel that life stifles him/her. It is equally true that lack of burnout can be also a source of stress for employees, because, the more professional employees become, the more they want cognitive stimulation and autonomy at workplace.

### **3. About work satisfaction**

Individuals must manage change continuously. Change generates a work surplus, most of the times. Change also implies uncertainty regarding the possibility to achieve the expected performance. Change covers all elements of novelty: learning new techniques, new methods, new procedures, or developing abilities that we do not possess to a significant extent. The more unpredictable change is, the more stressful.

Aspects related to work satisfaction have been of interest for the HR experts during the last quarter of century. Theoretical, economic, cultural, functional and humanitarian arguments explain

the increasing interest. The economic arguments refer to the fact that managers invest time, energy (effort), money, to achieve the employees' satisfaction, according to a simple rationale: if satisfaction can be improved, the organization may save huge money with hiring and training new employees. Also, measuring satisfaction / lack of satisfaction in various groups gives the managers more opportunities to locate those groups and formulate solutions to improve.

Work satisfaction is an individual state that can be felt at a certain moment by an employee. A unanimously accepted definition of work satisfaction has not been formulated so far: satisfaction is any combination of psychological, physiological and environmental circumstances or, according to V. Vroom: „Work satisfaction is made up of affective orientations of an individual towards work roles he/she plays at a certain moment.” According to Hellriegel, Slocum, Woodman (1992): “Satisfaction is a positive or pleasant emotional state resulted from one's professional experience”.

What can be found in most definitions is that work satisfaction is a pleasant reaction / affective state occurred in the context of organizational work.

As organizations respond to the environment in a more dynamic and turbulent environment, managers must face a double challenge: pressure of the external environment and organizational changes.

In the organizational environment, managing conflictual states implies the manager's abilities to persuade and negotiate.

Conflicts that oppose the employees to one another can undermine the daily life at a workplace. The role conflict describes the situations where the employees report to several bosses.

#### **4. Methods to improve the work environment**

The employees will do something not only because they are asked (requested) so but they will accept only what is of interest for them, what they understand and see as beneficial. To be successful in what they do, a logical and objective approach of phenomena is not enough. Much subtle aspects of human relations should be taken into account: about communication, about emotions that are communicated and created among humans and between humans and the organization.

We learn to control feelings by recognizing them, identifying them and labeling them accurately. The control of one's own emotions needs practice, but it can be achieved, it is useful and it brings benefits in communication and in the relations among employees.

Th. Hatch and H. Gardner, cited by M. Rocco, consider that art of leadership to be a sui-generis form of social intelligence consisting of recognition of the others' feelings and of the ability to link to them quickly. In their opinion, the components of emotional intelligence are:

- Organization of the group – crucial ability of the leader involved in the initiation and coordination of the effort of the collaborators of the group
- Negotiation of solutions – the leader's mediator talent to contribute to solving the conflicts
- Personal connections – to recognize and reply to personal feelings and to take care of them, to empathize
- Social analysis - ability to detect what is behind feelings, motivations and personal concerns.

Emotional management does not seem to be innate but acquired, learnt and developed, as Adele B Lynn states. She says that experience modifies the level of knowledge and the emotional structure that contributes to people's spiritual growing up.

To note that both emotional intelligence and traditional (rational) intelligence have an adaptive nature and ensure the individual's survival.

The specialized literature mentions that communication improves at one's workplace, which results into lower stress at one's workplace, less diseases and lower absenteeism.

We all face a double stress: personal and professional (financial concerns, disease, death of a beloved person, or a happy event, as well as strains - increased physical and intellectual efforts, changes, frustrations and relations with colleagues and the boss).

Changes need adaptation and require dealing with stress. Change creates uncertainty. The more unpredictable and the less controllable or the less desired change is, the more stressful for the individual. It may look strange but a promotion can be also stressful as this change may place the



individual in a situation that he/she may control less and makes him / her doubt his / her competence. A promotion therefore can be a strong stress factor.

Project management means almost by definition conflict management, as a successful project is many times quantified by goals that are contradictory; goals and priorities that contradict each other (i.e. to manufacture a high quality product with low costs within a deadline as tight as possible). In addition, the groups interested in the project may be in conflict as the project may be something new that takes them out of their daily routine, so we can say that project management means conflict management. In projects, time pressure is permanent and strong, and disruptions are disturbing because at the psychological level, humans build up certain stages in their minds to engage in gradually, and disruptions block and result into anxiety and aggressiveness arisen from the fear of not performing appropriately and of not meeting the deadlines. Multiple-tasking, and the use of advanced technology are only 2 examples of sources that can generate tremendous stress, through psychological destabilizing imposed by the adaptive response and by the difficulty to put the action plans in hierarchical order (the above-mentioned stages conceived in one's mind).

Unfortunately, there are project managers who consider that employees are more efficient when are under pressure or fear; to note, however, that on short term, management through stress proves to be efficient in many cases, on long term, failure “is ensured”.

Each employee should:

- look after and be concerned about one's health.
- avoid as much as possible the constant exposure to stress in order to avoid developing somatic and psychological syndromes.
- be aware that long term exposure to stress, even moderate, has a negative impact upon performance in work, even relative stress can disorganize and make someone focus more on negative emotions caused by stress, and less on tasks.
- be aware that emotional burnout causes loss of energy and motivation and has direct implications upon professional achievements.

## 5. Conclusions

There are more and more companies that admit that the encouraging of the characteristics of emotional intelligence is a major component of the managerial philosophy; the competition is no longer with products but with the ways in which you know to use your employees. Stress control, stress tolerance – the ability to fight stressful events and situations without stumbling and the ability to face them actively and positively are requirements to succeed in life.

For better adjustment, it would be desirable for employees to communicate openly with each other, to learn how to learn, to look for compatible available development sources. Mentoring and coaching can be key elements to improve the ability to learn, to communicate, to improve motivation and eventually to increase organizational efficiency. Through mentoring, the employees are helped to integrate into the organization and supported in their personal and professional development.

Coaching is a process by which employees are helped by the coach to identify and define their specific goals in order to organize their activity so that they could achieve their goals. Actually coaching is the way to facilitate manifestations of the employees' individual potential.

Counseling is also worth to mention – a process of interpersonal influence oriented towards providing assistance to employees in terms of psychological development.

Probably the most important thing (in our opinion) is that managers and employees should have a winner's attitude. This means that the psychological potential and its various cognitive, affective, emotional, relational and behavioral components are used to the greatest extent. If they constantly have the will and the wish to improve performance, winners will seek to face difficult situations that expose them to increasing stress. Uncertainty and risk will optimize the winners' efficiency and give them the opportunity to mobilize all their resources in order to win. Winners accept the idea that the road to success is neither smooth, nor deprived of various obstacles.

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## Impact of Education on Social and Economic Inequalities in Romania

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### Abstract

*In all societies, even into the economically developed societies, the differences related to education generate inequalities, since the possibility to find a well-paid job, to start a business or to perform an independent activity, as well as the income and the pension of the individuals are depending on the educational attainment to a large extent.*

*The educational attainment is directly linked with other social phenomenon, like social class, residential status, race or gender. Recent studies show that income, residence and ethnicity are the key factors that influence educational level in our country.*

*The paper shows that the large investments in modern infrastructure of communication made in the last years are an important factor for sustainable development, but it still exist inequalities among regions of Romania, between rural and urban spaces, etc. The risk is that a large portion of Romanians will become or remain a "computer underclass" inside European Union.*

**Key words:** Education, Government, Income, Income Distribution, Inequality

**J.E.L. classification:** I240

### 1. Introduction

According to both classic and contemporary economic and sociological theories, education has an essential role in any society; the development of educational systems and the increase in the importance of education for the level of the overall and individual economic prosperity were the outcome of the economic and social transformations that began in the 19<sup>th</sup> century. While in traditional societies work-related skills were acquired in the family, being transferred from one generation to another, this is no longer possible in industrial societies, because these societies rely on an increasing division of work, while the role of acquiring knowledge and work-related skills is taken over by various educational institutions. The increasingly complex and specialized professions require the acquisition of more and more abstract knowledge, in fields that are becoming more and more diverse; in modern societies, people are required to have basic knowledge of reading, writing and mathematical calculation, but also a general knowledge of the physical, economic and social environment wherein they are acting. Especially in the last decades, new competences, such as the familiarization with the new technologies (from computers to modern means of communication, smartphones, etc.), but also those relating to some specific issues (environment, food safety, etc.) have become increasingly more important.

The particularly fast technological changes prompt an unparalleled quick shift in the theoretical information and practical skills required for a particular profession; thus, the knowledge obtained in the initial phase of education is no longer sufficient to an individual. Therefore, education means lifelong acquisition of additional knowledge and competences, including training on the job. These recent phenomena are changing the classic perspective relating to the evolution of an individual: thus, in the past, the first stages of life were dedicated to education, followed by work in a position that would change quite insignificantly until the individual's retirement from the active life. This has become impossible nowadays, when jobs appear and disappear quickly, and the adaptation through education to these quick changes should be fast and permanent. During his or her life, an individual has more work experiences that require lifelong flexibility and training.

## 2. Economic and social consequences of education

Literacy was the first step of the educational systems in the modern states, and the levels of education have become increasingly more diverse with the increase in the complexity of professions. Durkheim believed that, through education, children acquire, apart from the skills required for an increasingly specialized work activity, the required knowledge on how society works. Another important view on the role of education, i.e. Talcott Parsons' functionalist approach, emphasized the role of education relating to individual success. Thus, according to Parsons, a child's status in a family is *ascribed*, while in a school, his or her status is *achieved*; while the former is a fact that could hardly be changed, since it is acquired by birth, in modern education systems children are assessed based on their own performances obtained in exams; thus, school is an meritocratic institution *par excellence*, which allows social mobility and promoted increasing equality in developed societies.

This positive view on school and education as modalities to promote the individuals on the objective basis of their own merits, without interferences of social class, gender, ethnic group, etc., is strongly questioned by studies on the social reality in many societies; these studies tend to confirm just the opposite: in very many cases, the ascribed status has a very significant role in relation to the individual's achieved status, which leads to the perpetuation of economic and social inequalities. This aspect is also true for the developed societies of the world, and even more accurate for those in the underdeveloped states. The question that keeps popping up in the sociologists' and economists' debates relates to whether the possibilities of moving up the social ladder have become more and more frequent or more and more limited and rigid.

The evidence that those with high levels of education have higher odds of finding themselves at the upper levels of the social and economic hierarchy has been brought in a recent analysis of global inequalities; the author of the study (Freeland, 2012, pp. 54-57) shows that a large number of those who make the 1% of the richest people in the world have high levels of education, being graduates of prestigious universities. Furthermore, since each of them is aware of the importance of education for their ascension, they tend to perpetuate this trend to their children, which is seen in the level of the competition for access to the best kindergartens, schools or universities.

The consensus on the fundamental role of education is one of the dominant characteristics of the current economic and sociological surveys. By analyzing how the United States can stay ahead of the economic competition in the 21<sup>st</sup> century, too, Friedman (Friedman, 2012, pp. 51-52) shows that 20<sup>th</sup> century American success relied on five pillars, the first of them being the public education offered to as many people as possible. The other pillars are: the investments in infrastructure (schools, roads, airports, fiber optic, wideband internet, etc.), the acceptance of the immigrants, especially of those who can contribute to the country's economic development, the government assistance for the support of fundamental research and development, as well as of private economic activity.

According to Stiglitz (Stiglitz, 2008, pp. 55-56), the strategies relating to education and to employment should be analyzed from a twofold perspective, the one of the impact on the development of the related state, but also of the manner in which the individuals are influenced. Thus, the analysis of the number of years of education is only a quantitative indicator (like the gross domestic product in the economic analyses), which does not say anything about the quality of education. Moreover, investments in the increase of the population's level of education should be made in parallel with the increase of the possibilities of employment and of some satisfactory levels of income; otherwise the results are a trick played on the population who invested resources and effort in the increase of the level of education, or the “brain drain” to the developed states that are able to meet such expectations. The latter phenomenon is detrimental for a developing country that invested significant resources in the education of workforce, but failed to come to the point where it could benefit from it.

Experience shows us that most of the states cannot find solutions to these issues; there are, however, some examples of success: South Korea is one of the states that managed, during several decades, to go from the level of one of the least developed states of the world to the level of a large economic world power of the moment. The explanation of the Korean miracle is, according to some authors (Chang, 2012, p. 23), a mix of market incentives and state intervention, contrary to

the free trade promoted by the theorists of globalization. Nevertheless, economic success was also achievable owing to the investments in education, which placed the Korean universities, for example, among the most developed ones in the world. The evolution of South Korea shows us that gaps can be recovered, and it is a good example for our country that is also seeking to overcome economic and social underdevelopment and to join the developed states of the world.

### **3. Education and its impact on inequalities in Romania**

The degree of literacy is one first indicator for the level of economic development of an industrial society; from this point of view, our country has started with significantly behind in relation to the economic development and the educational level of the population, as compared with the states in the West of the continent; thus, at the establishment of the Romanian state, most of the population was illiterate.

In inter-war Romania, owing to the governments' effort to decrease illiteracy, the percentage of the educated people had reached, in 1930, 57% of the adult population. This significant, albeit insufficient, leap was the result of the fact that, in 1921-1932, the financial effort for the development of the educational system amounted to 12.5% of the budget; although this level may seem high as compared with the current funding of education in our country, for comparison we find that a developed state like the Netherlands would invest, in the same period, approximately 25% of the budget (for an accurate image, we also need to consider the difference between the size of the two budgets, generated by the different levels of economic development). The comparison of the data in our country with the data of other European states shows the grim picture of the differences that persisted between Romania and other Central European states, for example; thus, according to the existing data (Encyclopedia of Romania, 1938, p. 147), the number of the educated people in Czechoslovakia was more than 92.6% of the total population, in Poland 67.3%, in Hungary 84.8%, in Bulgaria 60.3%.

The situation was visibly improved in the communist period, when the governments understood that economic development should be doubled by the development of the human resource. Thus, in the period that spanned in communism until the 1990s, illiteracy was almost eradicated, and the educational levels increased in parallel with Romania's industrial growth. Although Romania did cover, to a large extent, the existing gap, the communist government was not able to foresee the economic mutations in the developed states of the world, which meant that, in the eighth decade, a new gap would open in comparison with the developed states that were then entering the state of the society based on new technologies. Furthermore, differences between the rural and the urban areas continued to exist, just like those among the historical regions of Romania.

In a recent study of the inequalities in our country, the author (Precupețu, 2013, pp. 253-254) shows that inequalities in the field of education are prompted by three major factors: income, residence and ethnic membership. Income has a significant impact on the level of education, even if education is free in our country; the influence of income is seen on expenses that are required when one goes to school (clothing, transport, meals, writing materials, etc.), a significant number of families not having the necessary related resources (since our country has one of the highest rates of population living in extreme poverty, especially in the rural environment, where income sources are considerably diminished). Moreover, the quality of the education institutions is very different, especially when we are considering the gaps between the urban and the rural areas, between the large urban environment and the poor urban localities, or even within the large cities. Differences become even larger when we are also considering that wealthy families are opting for the children's private tutoring, which leads to the increase of educational inequalities. As shown by the data of the study, the levels of education in the rural areas are considerably lower (only 4% of the population that lives in the rural has a university degree, while in the urban environment the share of this population goes up to 25.4%). The economic underdevelopment of the rural environment prompts the individuals who complete higher educational levels to migrate to the urban environment. As to ethnic membership, the most impacted group is the group of the Romani: thus, in 2011, 20% of the Roma children with ages ranging from 6 to 16 years were not enrolled in school. More than 25% of the Romani population with older than 16 years is illiterate, and the percentage is considerably higher for those who live in the rural environment. Inequalities also act

on other minorities, such as the group of HIV-positive children or of which with special educational needs.

Moreover, the situation tends to self-perpetuate: the risk of extreme poverty is higher in those with elementary school studies (ISCED 0-2), i.e. 33.2%, while in those with levels of middle school education (ISCED 3-4) it decreases to 12.5%, and in those with high levels of education (ISCED 5-6) it is only 1.1%. The layoffs during the crisis have also had an impact especially on the less skilled individuals and those with lower levels of education (Precupețu, 2013, pp. 265-266).

We can see the same thing in relation to income. Thus, in 2008, the families whose provider had higher education had an average income 2.8 times higher than those where the family provider had only elementary studies or no studies at all; the percentage was increasing in comparison with the previous years and one of the explanations is the need of an increasingly qualified workforce following the economic development. In 2008, income in the urban environment was 52% higher than in the rural environment, and the reasons of this situation were given by the jobs in the rural environment, mainly related to agriculture, which involve income considerably lower than those in the industrial or service sector; in the rural environment, we find a significant share of families of seniors (retired from work) with small retirement pensions (also because of their activity in agriculture), of single-member families or of families with three or more children and where more generations live together. Another difference is the one among the regions of our country; the largest revenues are in the Bucharest-Ilfov Region, while the poorest regions are the North-East Region, the South-Muntenia Region and the South West Oltenia Region (Molnar, 2010, p. 67-69).

The data on education in 2009, depending on residence (Precupețu, 2013, p. 22) was the following: 16.4% of the population with ages between 15 to 64 years had graduated a form of tertiary education (urban 25.4%, rural 4%); 4.2% a post-secondary form (urban 6%, 1.6% rural); 33.9% a higher secondary form (urban 39.6%, rural 26%); vocational education 24.3% (urban 21.2%, rural 28.6%); lower secondary education 18% (urban 6.7%, rural 33.5%) and elementary education 3.3% (urban 1.3%, rural 6%). The aforementioned data shows the educational inequalities between the rural areas and the urban ones: the share of graduates of a tertiary or post-secondary form of education is 4-5 times higher in the urban environment than in the rural one, while at the levels of lower education, the situation is reversed. This shows that the high level of education is typical to the urban environment, while the rural environment is dominated by low levels of education. The only indicator at which the rural is ahead of the urban environment is the one relating to those who graduated a form of vocational education.

The situation is seen in a completely different light when we compare ourselves with the developed states (OECD, 2015, p. 39): there, the share of graduates of higher education is in the range of 20-30% of the total population (the United States and the United Kingdom-22%, South Korea-31%, Japan-28%). Moreover, there is also a qualitative difference from them, especially in the use by the Romanian population of modern technologies and means of communication.

#### **4. “The world is flat”: the place of Romania**

The fusion of globalization with the IT revolution can change everything, from how business is conducted to the places of work, the required skills, etc. Thus, by the use of new technologies at a wider and wider scale, the world has become “flat”; the last decade was the one that saw an explosion in the use of mobile phones and internet services at world level, a phenomenon that is going to expand and, thus, create new inequalities among the states and the individuals of the world (Friedman, 2012, pp. 75-78).

According to the *Consumer Barometer* established by Google, in 2015, 46% of the Romanians have a smartphone, a share almost four times higher than the year 2012, when only 12% of the Romanians had such a phone; although the increase is spectacular, this share continues to stay behind other European states in the region: Poland (59%), Slovakia (65%), Czech Republic (55%), Hungary (50%) or Bulgaria (48%). Although the share of Romanian who have a smartphone is lower than in other countries of the region, they compensate by the intensity of its daily use; thus, according to the indicated study, Romanians are using their mobile phone approx. 80 minutes/day (as compared with the Czechs and the Polish people who are using the phone only 55 minutes/day).

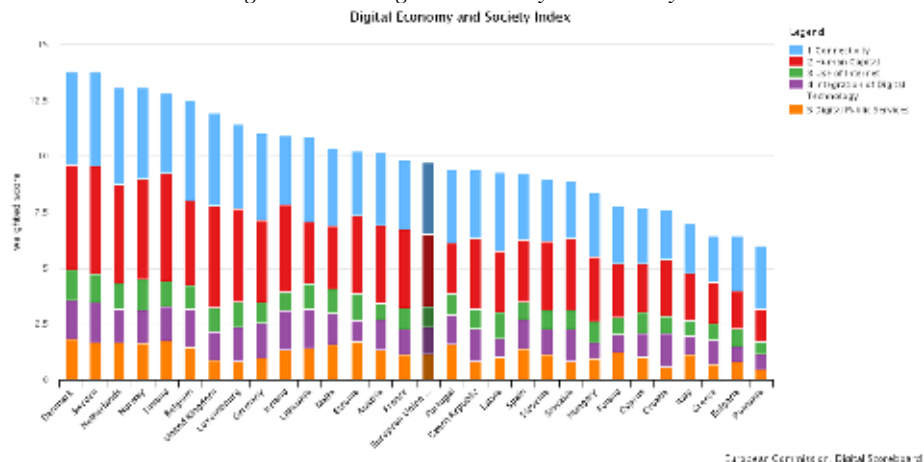
The data of the same study shows that more than 65% of the Romanian population is using the

internet, the share of the daily use being 47% in 2015, while in Bulgaria the percentage of those who use the internet is 69%, and daily use goes up to 56%, in Hungary 73%, respectively 62%, in Poland 74%, respectively 55%, in the Czech Republic 80%, respectively 54%, in Slovakia 84%, respectively 60%. This data shows that, although Romania is ranked among the top positions at world level as to wideband communications infrastructure, the number of users places us at the last position in EU.

A study conducted by *Ernst and Young Romania*, on a sample of 1040 respondents with ages between 18 and 55 years, with their residence mainly in the urban environment, in 31 counties of Romania, has shown that most of the Romanians have started to use mainly smartphones to the detriment of tablets or computers. The study shows that the greatest use of the smartphone, more than 200 times in 24 hours, is seen in the 25 to 35 years age category, followed by those aged between 35 and 45 years. The study also shows that there are visible differences between the rural and the urban areas; in the former environment, the use of the internet is considerably lower.

According to the European Commission, Romania is included in the group of the countries that are in a phase of recovery from the digital lags, with states like Latvia, Croatia or Cyprus. Our country is found above the EU average in relation to access to high-speed internet, with the national networks able to provide 30Mbps speed, for 72% of the households, the EU average being 71%. The Commission’s report shows that Romania has registered the greatest progress in the field of connectivity, ranking the 23<sup>rd</sup> among the member states. At present, 59% of the subscriptions to fixed internet are subscription with fast internet connections, as compared to 54% in 2013, which places Romania on the second place, from this point of view, according to the document. As seen in *Figure no. 1*, our country continues to be deficient in the field of human capital, in the integration of new technologies and in their use in public services. Romania ranks the 28<sup>th</sup> and has a weighted score of 0.35 in terms of development and use of digital services, while the European weighted score is 0.52:

Figure no. 1: Digital Economy and Society Index



Source: (European Commission, 2015, *Digital Economy & Society*)

The implementation of the RO-NET project involves the introduction of state-of-the-art networks for the entire territory, which will lead to the increase of the degree of coverage with wideband networks.

The DESI warns that Romanian enterprises will have difficulties in competing on the global digital market, unless they use more the electronic commerce and cloud computing applications. Only 7.4% of the SMEs are selling online in Romania, and only 1.9% of these are selling online in other member states, a small share as compared with the other member states.

## 5. Conclusions

Apart from the opportunities provided by the new technologies, they can trigger new educational disparities which are later translated in social and economic inequalities. Giddens (Giddens, 2010, p. 689) shows that technological changes have shifted the emphasis from the “culture of the book”

(which involves the use of books, magazines, newspapers, and other printed means for education), typical to industrial societies, to the use of technology in education (computers, the use of Internet, of learning software, etc.). The use of new technologies is leading to new forms of inequality, such as the appearance of a “subclass of the computer”, both among the states found at various levels of economic and technological development, and among social categories in the same country.

The lack of information can add to the shortage of food or other resources. The increasing need of information and the additional skills of computer use can create differences among the employees, between those who are using and those who are not using or are only partially using the computer (without any relation to basic professional skills), between the technologically skilled and the other ones. Thus, the importance of lifelong learning is increasing, as is the risk of disconnection of some areas, countries or categories of individuals. Technologies can contribute to the dissemination of information and its democratization, but the limitations caused by the lack of the necessary infrastructure lead to the fact that some countries or individuals have additional facilities that are translated in social and economic benefits.

The low shares in the level of education in our country, doubled by the low levels of knowledge and users of new technologies of communication may lead to the expansion of the gap between us and the developed states, including the former communist states in the region, with obvious effects on the rates of economic growth and, subsequently, on the population’s purchase power. Recent investments in the modernization of infrastructure should be double by massive investments toward the development of human capital, as well as the implementation of coherent public policies for the stimulation of the use of new technologies in public services, as well as in the business environment.

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## The Right to Property and Inheritance in the Old Testament

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### Abstract

*The right to property is considered to be the most accomplished real prerogative, as it endows its holder with all the attributes deriving thereby namely the right to ownership, the right to use and the right to dispose of properties.*

*In the Law written in the Old Testament, the right to ownership had a special nature given the fact that Yahweh was the owner of the Promised Land, the Jewish people being regarded only as usufructuary. Inheritance is the legal and social practice of passing properties, titles, debts, rights and obligations of a deceased person onto the legal, testamentary heirs.*

*Inheritance has for ever played an important part in human societies and it still does in certain areas of the world. The Jewish right to succession had some features that derived from the patriarchal family, which had been thoroughly established even before the age of state consolidation.*

**Key words:** Property, Inheritance, Right, Mosaic Law, Sabbatical Year, Jubilee Year

**JEL classification:** A13, K11, R14, Z12

### 1. Introduction

In the Old Testament, God promised the patriarchs Abraham, Isaac and Jacob, to give them to rule a special country, the country of milk and honey - Canaan, (Exodus 3:8) and where their offspring shall multiply like the stars in the sky and the sand on the seashore (Genesis 25, 17). The covenant was fulfilled after the death of Moses, when the Jews led by Joshua, entered Canaan, which they conquered not only by weapon but by the help and the will of God. Further on, the country was divided into 12 tribes. Despite the fact that the country of Canaan was promised as eternal heritage (Genesis 13, 15), its preservation as lawful right of the Jewish people depended entirely on the Jew's accomplishing their mission of God's chosen people.

Therefore, the Jewish people could not dispose of this territory, although the Jews had been nominated as heirs of the land of Canaan.

As we shall see further on, when debating an inheritance, only male offspring were called upon, and the females were summoned later on. If case there was, that the deceased did not have any children the inheritance was passed on to the deceased person's parents, and provided these had also passed away prior to the event, the brothers got the inheritance. As a rule, the elder son had a double share as compared to the other heirs, claiming that the family patrimony should not be squandered.

In the long run, the right to reciprocal succession between mother and sons, and between spouses was admitted as well. In its turn, the testament did not have any great importance attached to it; it only enabled the testacy to bequeath an inheritance solely to his lawful heirs, allowing him still to allocate different quotas than the ones established by law.

### 2. The Right to Property according to the Old Testament

The true master of the earth has always been God, and the Jews were only usufructuary (Leviticus 25, 13-16, 23). In order to make the Jewish people never forget this aspect, the Mosaic Law provided a divine resolution according to which every sabbatical year (once in seven years)

the land was not to be labored, but be allowed to celebrate a God’s Sabbath itself. Similarly, every jubilee year (once in fifty years) each Jew who had been deprived of his land by sale, was to be re-granted to right to property, or was able to buy back the land inherited from his ancestors.

„The guidelines of this regulation are as follows: 1). Once having entered the land of Canaan, the sons of Israel must preserve their freedom after leaving Egypt and 2) the lands were not to be estranged” (The Bible, 2011, p. 225).

As to this practice which went valid only for the jubilee year, the Mosaic law provided several rules. First of all, if someone was compelled, due to financial reasons, to sell a certain property, was able to do so only for a limited span of years in accordance with the number of years left until the following jubilee year. The jubilee year was once in every fifty years starting with the year the Jews entered the land of Canaan in the time of Joshua.

In this year, the real estate wealth which had been sold was re-allotted without compensation to the former owner or to the latter’s heir. In other words, the sale of a property was similar to the lease as they sold only the products resulted from cultivating the land until the following jubilee year.

Second of all, the person who sold the property, or his relatives, had the possibility to buy the estranged property at any time, returning to the buyer the difference from the price paid, that is the difference for the years left until the jubilee year.

God had commanded very clearly regarding the manner in which the chosen people were to make use of the Promised Land, setting the sabbatical year on one hand, and the jubilee year on the other hand.

And in the seventh year the land is to have a year of Sabbath rest, a Sabbath to the Lord. Do not sow your fields or prune your vineyards. (Leviticus 25:4). The sabbatical year „is considered after the Mosaic law rest in the honor of God and this is manifest in not laboring the land enabling thereby the Jewish believers to bear in mind that God is the true owner of their lands acquired by drawing lots and that they are only temporary usufructuary of the goods produced on these lands” (Neusner, 1998, p. 44). The people making a feast of the fruit of the land symbolize and anticipate the Eucharistic feast: „A restorative feast is the peace in our Lord, which brings about the peace in our souls. That is why we are to find rest in the spoken Word” (St. Ambrose of Milan, 1994, p. 398).

Regarding the year of jubilee, in the book of Leviticus, Moses gave a very precise set of rules as to property among the Jewish people. „You are to buy from your own people on the basis of the number of years since the Jubilee. And they are to sell to you on the basis of the number of years left for harvesting crops”. (Leviticus 25:15). This requirement clearly refers to the land transaction. We should keep in mind the fact that for the following jubilee year land ownership was to be reverted to the original owner, and, when determining the price, the transaction had to take into account the number of years since the last year jubilee, as well as the number of those remaining to the next, which in substance is the same. „By formulating the terms of the vendor, of the person who buys respectively, the two members of the phrase are equivalent” (Monumenta linguae dacoromanorum, Biblia 1688, 1993, p. 200).

„When the years are many, you are to increase the price, and when the years are few, you are to decrease the price, because what is really being sold to you is the number of crops.” (Leviticus 25:16).

The chronological reports concern the period between two successive anniversaries. In this regard, the price of agricultural land is proportional, both in terms of its surface extent and the number of crops that the buyer will get, taking into account that the property will return the next jubilee year to the original master. This type of regulation of land ownership is based on the principle that God is the sole master of the earth, which He divided at first to the twelve original tribes of Israel, which they are to preserve as such.

„The land must not be sold permanently, because the land is mine and you reside in my land as foreigners and strangers.” (Leviticus 25:23). We infer thereby unequivocally that the land will not be sold at any time; this commandment is final, firm and without possible return. „Moreover, the purpose of all such regulations is twofold: 1) Once you enter the land of Canaan, the Israelites must remain free after their departure from Egypt, and 2) the lands must not be alienated” (The Holy Bible, 2001, p. 151).

„they are to determine the value for the years since they sold it and refund the balance to the one to whom they sold it; they can then go back to their own property.” (Leviticus 25:27). Consistent with the special regime of land ownership in Israel, when the amount needed for the redemption of the sold land was gathered, the former owner was forced to return the buyer a sum of money. This amount was calculated as follows: the price of crops that benefited the buyer was deducted from the price paid, plus a surplus equivalent to the price of harvesting remaining until the next jubilee year, when the land would be returned to the original owner anyway (Keil and Delitzsch, 2006, p. 293).

„But if they do not acquire the means to repay, what was sold will remain in the possession of the buyer until the Year of Jubilee. It will be returned in the Jubilee, and they can then go back to their property”. (Leviticus 25:28). From this verse it is clear that the original owner repossessed the land when the jubilee year came.

„Anyone who sells a house in a walled city retains the right of redemption a full year after its sale. During that time the seller may redeem it”. (Leviticus 25:29). The requirements regarding the buildings or the residential homes do not fall within those relating to agricultural land as fortified buildings in cities were considered absolutely essential goods, like the earth. Losing a house did not involve the loss of means to get food (Miller, 1984, p. 16).

“The Levites always have the right to redeem their houses in the Levite towns, which they possess.” (Leviticus 25:32). The Levites were not granted the right to personal property, yet they could possess the cities which were governed by their own legislation. „The tribe of Levites, descendants of Levi, one of the sons of Jacob (cf. Genesis 29:34), had special duties in Israel: while some of them, namely the descendants of Aaron, fulfilled priestly functions, other members of the tribe were involved in various auxiliary cultic and religious activities, under the guidance of priests. The specificity of their community duties did not allow them to carry out other gainful activities, so the only wealth were the homes they lived in and thus the land for other community members could not be permanently alienated (Clarke, 2012, p. 568).

„So the property of the Levites is redeemable - that is, a house sold in any town they hold - and is to be returned in the Jubilee, because the houses in the towns of the Levites are their property among the Israelites.” (Leviticus 25:33). Unlike the homes found within the walls owned by the descendants of the other tribes of Israel, the law did not guarantee ownership and possession of which they have purchased, where sellers do not have the opportunity to redeem them within a year. "The law allows the Levites to redeem them at any time, in the way that it allows ordinary people on the fields, which the houses the Levites are comparable to" (Philon of Alexandria, 1970, p. 408).

The right to redemption stretched freely on land, the houses in villages and farms not surrounded by walls, the houses the Levites and the land pertaining to it. Exceptions were the homes in cities which were sold and could be redeemed only within one year from the moment the sale. “After this term neither was the option of redeeming valid nor such a house could be returned to the former owner in the jubilee year. Also, the land consecrated to God on the basis of a vote or a solemn promise, was not returned to the original owner in the jubilee year, but could be redeemed at any time by paying the difference of price for the time that is left before the jubilee year, plus a fifth of the price” (Abrudan, Cornițescu, 1992, p. 157).

If someone buys a piece of land they devote to God, this was returned in the jubilee year to its original owner, whom the donor had bought it from, because the old owner when he sold it, had done it with the belief that will take back the property the moment of the jubilee.

These provisions are very clear about the right of ownership and the coordinates of the possible alienation of property were very useful because they avoided the formation and emergence of landowners, and the impoverishment of part of the Hebrew people. Also, it took into account the integrity and heritage of tribes and families belonging to tribes and their perpetuation in history.

As regards ownership, a distinction is made between movables and immovable. Movables form the individual personal property, which only in form of buying and selling were fit for passing from one person to another. This was not valid for immovable property (land, buildings).

As for material goods, the law protects property rights and sanctions its violation. There are no laws for the violation of property rights, for the special conception of the Mosaic Law in this matter. We are only told that it is punishable by law the moving of boundary stones which would

impede on the immobile heritage (Deuteronomy 19, 14). In case of theft, embezzlement or larceny, the law provides the restitution of the alienated property, by adding a part of real price, to compensate the victim for the profit that the stolen thing would have brought, as long as it was in the possession of the thief (Exodus 21, 33-22).

### **3. The provisions of the Mosaic law regarding inheritance rights**

The Old Testament law stipulated that after one's father's death, the sons shared the inheritance among them, so as firstborn to receive two parts and the others only one part (Deuteronomy 21, 17). The firstborn was considered the first son of the father and not the mother (Brueggemann, 2010, p. 36). Thus, if a man had more wives, only one of the children born of them is considered a firstborn by birth. If the father died, the first born had the duty to take care of all his father's wives left widowed and of the unmarried sisters, regardless of which parent they came.

Initially, the Old Testament did not mention anything about the inheritance rights of children conceived with concubines. In the age of the patriarchs, they were treated in accordance with the father's will. In this respect, we have the example of Abraham who gave only certain gifts to the sons of concubines, and did not consider them as his heirs having equal rights with his legitimate children. On the other hand, Jacob treated equally the sons of his concubines and those born of legitimate wives. This attitude of Jacob was later taken over by the Mosaic Law, which grants children born of concubines the same rights as legitimate ones.

Girls did not real inherit real assets from parents, but were ensured dowry money, clothes and other goods upon marriage (Old Testament Theology, 1996, p. 109). Only provided they married men of the tribe, they could receive land as dowry. This was especially true if they were the sole heirs of their parents (Joshua 15, 18; 1 Judges, 14).

If someone died without leaving behind any heirs, sons or daughters, his brothers became heirs of his personal property. If he did not have any brothers, the right to inheritance was taken by the uncles (the father's brothers), and if they were missing, the close relatives would immediately follow (Numbers 27: 9-11). We note that maternal blood kinship was not taken into account because no one wanted to transfer the inheritance to another tribe, which the mother could be part of. We also note that the widows could become heirs of the husband and had to be maintained as such by the sons who inherited wealth or by the proximal heirs provided there were no offspring. However, a part of the inheritance could be left by will to widows (Pressler, 1993, p. 69).

Left to heirs, the widows were often seen forced to return to their parents' house (Genesis 18, 11; Leviticus 22, 13). These social cases made the prophets of the Old Testament often condemn the neglect and disregard of widows (Isaiah 1: 23; 10: 2; Jeremiah 5, 28, 7, 6, 22, 3; Ezekiel 22: 7; Zechariah 7, 10; Malachi 3: 5).

Later on, in the Maccabean era, widows were awarded part of the spoils (II Maccabees 8: 28-30).

The adopted could have the right to inheritance. In this respect, we have the example of patriarch Jacob who adopted the two sons of Joseph, Ephraim and Manasseh who were born in Egypt and give them an inheritance with other tribes. (Genesis. 49:8-12; I Corinthians 5:1).

### **4. Conclusions**

After conception of the Pentateuch, the land belongs to God and man is only a usufructuary. As we could see, the accumulation of landowning properties was brought to cessation by the jubilee year, when the alienated rural properties which had been for any reason without any consideration went to the original owners. Moreover, the land, if sold, did not change owners, as the harvesting products were sold for one or more years.

God as exclusive owner of the land, gave detailed provisions for inheritance so that the will of the Mosaic Law remains unknown because it could not be implemented, God's will being superior to any other law.

In Judaism, inheritance is a complex issue, as we have seen above. It is regulated, as well as the civil laws of most countries of the world, by establishing and clarifying ancestry - if any - of fatherhood. In addition, according to the Old Testament provisions, inheritance is passed down the

male line. If a family had several children, the family land is shared, upon the father's death, among the sons, the firstborn receiving some two times greater than his brothers, and the girls get nothing. Under these circumstances, the boys have a responsibility to maintain their sisters until the girls marry when that responsibility shifted to the husband. In addition, one of the rules underlying inheritance is that the land should remain in the family, or more specifically, within the tribe, which is due to the fact that the land of Israel was divided by lot at the entrance of the Jews in the country during the time of Joshua.

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**Section IV**

**Marketing – Management**

# The High Performance Working Practices in Romanian Companies – an Empirical Study

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## Abstract

*The modern companies are facing an economical background marked by an intense competition. Therefore, the struggle to enhance the performance's level became a major task for the management that brings into discussion the importance of high performance working systems. There are various approaches on this issue in the specialized literature. The practices implied by such systems are tightly connected with the human resources management practices that the companies are using in order to ensure their success and development*

*This paper aims to investigate the presence of these specific practices such as recruitment and career management, training, variable payment schemes, in companies situated in Constanta county, Romania. The analysis is based on the results of an empirical study and tries to establish the level of development of such practices in the studied companies and the potential correlation between them and the size of the analyzed companies.*

**Key words:** working practices, human resources, organizational performance

**J.E.L. classification:** M12, M54

## 1. Introduction

The importance granted by the modern companies to the human resources issues is reflected in the number and diversity of the specific practice they deploy. Such practices could enhance the personnel's skills, degree of involvement and level of performance with a clear and positive influence on the companies' performances.

In this context, one subject has been intensely debated among specialists, namely the high performance working practices (HPWP). There are several human resources management practices that are considered to be positively linked with the company's level of performance. Such practices are related to recruitment process, career management, training, working time arrangements or variable pay schemes.

Therefore, this paper intended to investigate the use of such practice in the local companies from Constanta county. The main objective was to determine if there was a connection between the size of the company and the importance granted to training and career management procedures and variable pay schemes.

The paper has the following structure: first an overview of the specialized literature on the topic of high performance working practices is presented; a section that includes the findings of previous specialized studies on this issue concerning the Romanian companies; the next section presents the research methodology, followed by a section that approached data analysis and hypotheses testing.

## 2. The theoretical background of high performance working practices

The specialized literature has registered different attempts to clearly define the concept of high performance working practices. The majority of these attempts generated the common idea that such practices are related with the human resources management practices deployed by a company.

There are specialists that consider such practice as group of separate but interconnected human resource practices that together recruit, select, develop, motivate, and retain employees (Way, 2002).

Other opinions refer to the companies using these specific practices as organization that have significant investments in their human resources in order to hold well trained employees, skilled, and empowered to conduct their jobs (Becker and Huselid, 1998).

Some researchers have argued on the topic of the systemic effect of such practices. They considered that some groups of human resource practices conducted to an improved level of performance for the company (Boxall and Macky, 2009).

Defining the exact set of practices proved to be the most difficult task. For example, there are specialists that considered that some practices could be seen as a source of high performance in one institutional context, meanwhile in other contexts may not generate the same level of performance (Boxall and Purcell, 2008).

Other researchers appreciated that it cannot be assumed that so called best practices would generate comparative level of performance within different companies. Each company has different means and follows different paths in order to achieve performance (Orlitzky and Frenkel, 2005).

The high-performance work practices are enhancing the role of the employees that are considered as primary source of competitive advantage. In such context, it will be difficult for others companies to imitate it. The use of such practices will generate a continuous improvement of personnel skills and will generate higher level of performance.

Despite all controversies regarding the high performance work practices the common conclusion is that they referred to a group of human resources practice that will ensure a superior organizational performance.

### **3. The human resources practices and the performance level in Romanian companies**

This section presents the results of specialised studies on human resources management practices deployed by the Romanian companies and their impact upon the performance level.

First, the results of the 3<sup>rd</sup> European Company Survey (2013), revealed some interesting situations for the Romanian companies. The analyzed data were related with specific practices such as recruitment and career development, training, working time arrangements, variable pay schemes that lead to superior organizational performance.

The results concerning recruitment practices revealed that are different types of companies that had less or more difficulties in order could provide themselves the needed personnel: First, the companies with stable recruitment policies, that indicates a stable workforce, had less difficulties in finding the right peoples and very small problems regarding personnel retention. A second type includes the companies with problems related to matching skills that generated problems with the acquiring and retaining right skilled employees. The third type was represented by the companies with greater problems regarding the finding and retaining the proper personnel.

The major part of the investigated companies was placed in the first category (60%), the second type included 20% and the last category gathered only 12% of the companies. Therefore, it can be assumed that the majority of those companies had a proper recruitment practices that led to a stable workforce with a positive impact over the performance level.

The analysis of the data concerning the training practices revealed that the companies used different training formulas such as outside the job training, on the job training or both of them. The results indicated that a large percentage of the companies (61%) enabled the participation to both forms of training for their employees. This situation leads to conclusion that the studied companies developed appropriate training practices that could improve the performance level of their staff.

Working time flexibility practices referred to the possibility that the staff establishes a flexible working program, accumulation of overtime and use part-time working formulas. The companies were divided in three categories. First category was represented by the companies that have a limited allowance of working time flexibility practices. The second category included companies that enable such practices in a selective manner. The third category included companies that allow working time flexibility practices on a larger scale for their employees.

The major part of the companies (58%) was the ones that had limited usage of such practices,



followed by the ones with selective appliance of those practices (27%). This situation indicates that the studied companies were using in a limited manner such practices that could not generate a significant impact upon their level of performance.

The results concerning the use of variable pay schemes indicated the existence of three types of companies. First type included the companies that used none or limited variable pay schemes. A second category was represented by the companies that used a medium percentage of such schemes. The third type covered a low percentage of companies that provided different variable pay schemes on a large scale.

The first type represented 45% of the studied companies, followed by the second category with 43%. This indicates that the use of such practices was limited and had a little impact on the performance level of those companies.

The results of the Ensign Management Consulting study, 3<sup>rd</sup> Edition, 2014, have revealed that such practices oriented toward high performance are still underdeveloped. For example, the use of variable pay schemes is limited, meaning that many companies are not interested in a correlation between rewards granted and the results of the performance appraisal.

#### 4. The Research Methodology

The empirical study presented in this section tried to determine the level of development of such high performance oriented practices in the studied companies by analyzing the opinion of human resources managers or the opinions of those in charge with this field on these specific issues. This was a part of a broader research aimed to investigate various issues related with human resources management that occur in the companies' activities.

A questionnaire was employed as the research tool. The research was conducted between October and November 2015, in Constanta County. From a total of 75 questionnaires distributed, 62 were returned filled in and were processed using SPSS (Statistical Data Analysis, version 21).

This case study is focused the issue of high performance working practices. It aimed at determine the importance granted to specific procedures such as recruitment, training and career management associated with high performance and also to test if the perceived importance varied by the company size. Each human resources practice was evaluated using a five point semantic differential (from 1- the least important, to 5 – the most important). It also tried to determine if the investigated companies were using variable pay schemes related with the individual performance.

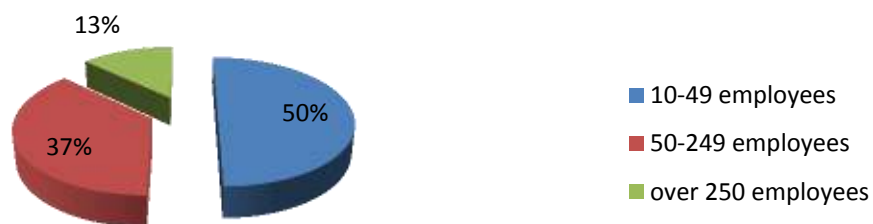
The following research hypotheses were formulated:

H<sub>1</sub>: There is a statistically significant difference between the median importance of human resources activities (human resources training and career management) in small, medium and large sized companies.

H<sub>2</sub>: There is a statistically significant association between company size and the practice of using variable supplementary payment associated with individual performance.

The studied companies are: active in the service field (58.1%), industry based companies (29%), active in constructions (9.7%), and only 3.2% have agriculture as main object of activity. Most of them are private companies (96.8%). The structure of the analyzed sample by the numbers of employees is presented in figure below.

Figure1 The structure of the companies by personnel's number

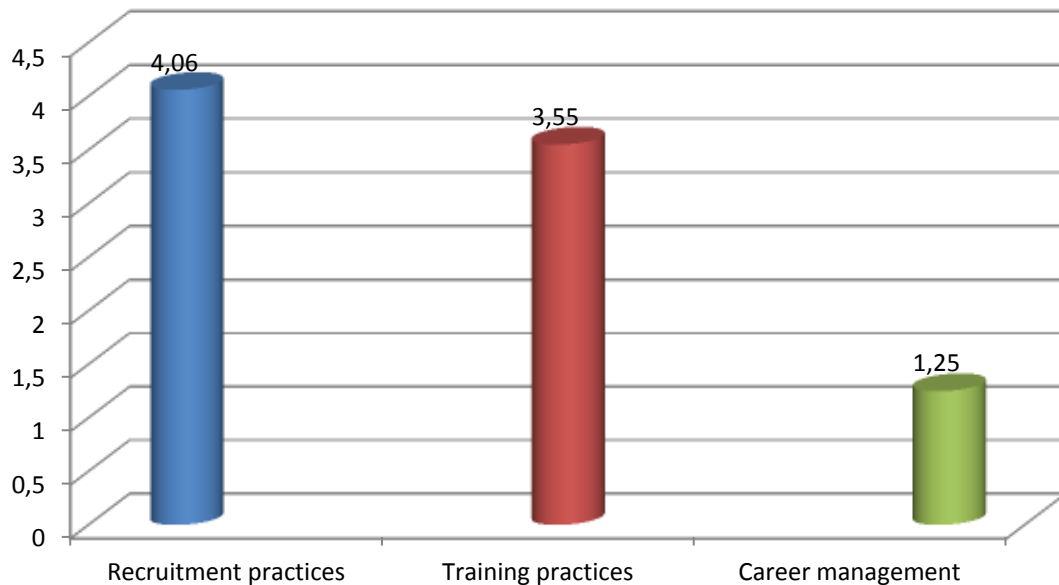


Source: Data from survey

## 5. Research results and hypotheses testing

Analyzing the perceived importance of the practice related with recruitment, training and career management revealed the following results: the most important were considered recruitment practices with an average score of 4.06, followed by training practices with 3.55 and the least important the career management practices with an average value of 1.25.

Figure2 Recruitment, training and career management practices scores



Source: Data from survey

The results regarding the use of supplementary variable payment showed that 33.9% of the companies use variable supplementary payment correlated to evaluated individual performance, and 45.2% use variable supplementary payment correlated to group/ performance.

In order to test the first of the hypotheses, Kruskal-Wallis H tests were conducted.

The Kruskal-Wallis H tests showed that there was a statistically significant difference regarding the importance of human resources training practices, the scores varying between different size of companies, Chi square (2)=11.30,  $p=0.004$ , with a mean rank importance score of 26.89 for small companies, 30.47 for medium sized companies, and 48.75 for large companies.

In the case of career management practices, the Kruskal-Wallis H test revealed a statistically significant difference in importance scores between different size companies, Chi square (2)=7.28,  $p=0.026$ , with a mean rank importance score of 21.25 for small companies, 18.08 for medium sized companies, and 27.00 for large companies.

In order to test the second of the hypothesis a Chi Square test was performed. The test results,  $X^2(2) = 0.601$ ,  $p=0.740$ , indicated there was no statistically significant association between company size and the practice of using variable supplementary payment associated with individual performance.

## 6. Conclusions

The human resources management practices have been the subject for numerous researchers. One particular aspect regarding this field was represented by the high performance work practices. They proved to exercise a major influence over the organizational level of performance.

The use of such practices grants a company a superior level of performance and thus enhanced possibilities to develop. The debate regarding this issue generated many controversy, but the general opinion states that such practices concern a particular set human resources practices that

can be used by a company in order to generate and maintain a competitive advantage

Specialized studies have identified several practices that can positively influence the organizational performance. This paper took into consideration the ones regarding recruitment and career development, training, variable pay schemes.

Such practices were analyzed through an empirical research in order to determine the degree of development in the studied companies and their possible influence on their performances.

The results of the study revealed that practices as recruitment or training are perceived as very important for the management in the studied companies. In the same time career management practices are not granted the same importance and the use of supplementary variable payment related with individual performance is still limited.

The result of the tested hypothesis proved that are significant differences between companies considered by their numbers of employees in what concerns the practices such as recruitment, training and career management.

Regarding the use of supplementary variable payment related with individual performance, the test of the second hypothesis proved no significant association with the company size. Therefore we can conclude that the use of such practices remains limited despite the size of the company.

Although this study revealed interesting results in could be continued in order to investigate more detailed aspects regarding the use of high performance work practices and their effective contribution to the performances registered by a company.

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## Reward Management Practices-Evidence from Constanta County, Romania

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### Abstract

*Modern companies are aware of the importance of their human resources. The human resources management field raised numerous research themes that have been debated in the specialized literature. One of these themes concerns the relationship between the specific practices regarding human resources field and the level of performance achieved by the organization and its members.*

*In this context, one important subject proved to be the reward practices used by the companies in order to motivate and achieve a certain level of performance.*

*The results of several specialized studies reflect a better image on this particular field within the Romanian companies.*

*This paper intends to analyse specific issues based on an empirical study on the companies located in Constanta County. The use of modern reward practices such as supplementary variable payment correlated with individual or group performances was targeted. The results indicate an area with underdeveloped practices and challenges to be faced.*

**Key words:** human resources, reward management, practices

**J.E.L. classification:** M12, M50

### 1. Introduction

The human resources management practices have been intensely debated in the specialized literature. Modern companies perceive their employees as the most valuable assets.

The human resources specific practices determine the level of performance registered by company's employees. Therefore, some specialists approached this issue through the concept of high performance work practices (HPWP). Such a system has been seen by some specialists as a group of separate but interconnected human resource practices concerning the recruitment, selection, development, motivation, and retaining employees (Way, 2002).

The specialized literature has presented results of different studies that try to explain how human resources management practices enable organizational performance (Guest, 2011). Evidences suggested that such practices have a strong influence over the company's performance.

It can be noticed that the issues related to employee's motivation and retention practices are important in order to obtain an appropriate level of performance. Thus, we decided to approach the reward practices used by the local companies from Constanta County. The main objective was to determine that the size of the company determines the use of such specific reward practices such as supplementary variable payment related to individual/group performance and the correlation between reward and employee's level of productivity.

This paper is structured as follows: first a brief review of reward practices is presented based on the results of several previous studies on this topic in Romanian companies, the next section presents the research methodology, followed by a section reserved for data analysis and hypotheses

testing.

## 2. Reward practices in Romanian companies

In this section we presented the results of different specialised studies on various human resources management practices used by the Romanian companies. We focused on those practices related with the reward issues.

The 3<sup>rd</sup> European Company Survey that took place in 2013, has revealed some interesting results for the Romanian companies. The analysed data indicate that the domestic companies are using variable pay schemes in a moderate manner.

They can determine a positive influence over the results of the organization.

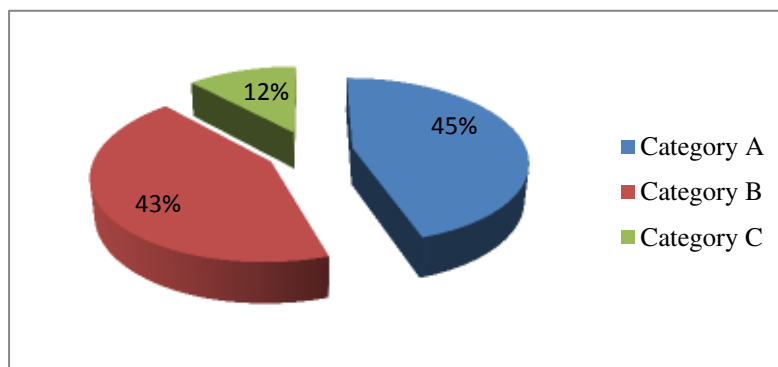
Companies participating in the survey were separated into three categories. First category (A) included the companies that used none or limited variable pay schemes.

A second category (B) contained the companies that used a medium percentage of such schemes. Most of those formulas are performance-related pay schemes. In the same time the formulas of pay based on group performance and profit-sharing are less used.

The last category (C) covered a low percentage of companies that provided different variable pay schemes on a large scale.

The situation of the Romanian companies included in those three categories mentioned above is presented in the figure below.

Figure no.1. Categories of Romanian companies using variable pay schemes



Source: Processing data from [www.eurofound.europa.eu](http://www.eurofound.europa.eu)

The analysed data indicate that the domestic companies are using such reward practices in a moderate manner. This situation generates a positive influence on company's performance in the same manner.

The study undergone by Ensign Management Consulting, 3<sup>rd</sup> Edition, in 2014, has revealed among other results that the reward management practices are still underdeveloped, meaning that many companies are not interested in a correlation between rewards granted and the results of the performance appraisal.

In the next sections we aim at determining through the results of the empirical study if the analysed companies are using developed, performance related reward practices.

## 3. The Research Methodology

The empirical study presented hereafter is aimed at inventorying human resources managers' opinions on several issues regarding reward management. The present study is part of a broader research conducted in order to respond to several critical issues human resources managers are confronted with in today's companies.

The research tool employed was a questionnaire designed to encompass various sections focused on general data on the company, on strategies employed in the field of human resources, and on retention and development of human resources within the company.

The research was conducted between October and November 2015, in Constanta County, and

out of a total of 75 questionnaires distributed, 62 were returned filled in and made the object of analysis using SPSS (Statistical Data Analysis, version 21).

In the present case study the focus is on reward management. Five questions from the questionnaire are concentrated on reward management and they target the evaluation of motivation factors such as – job security, salary, work conditions, working team, organizational culture, job description, promotion perspectives, and socio-economic benefits, as well as the connection between rewards and labour productivity, salary system, and individual and team/workgroup/department performance.

Three research hypotheses were formulated:

H<sub>1</sub>: There is a statistically significant association between company size and the practice of using variable supplementary payment correlated to evaluated individual performance.

H<sub>2</sub>: There is a statistically significant association between company size and the practice of using variable supplementary payment correlated to team/working group/department performance.

H<sub>3</sub>: There is a significant difference in the assessment of the productivity-reward relation among managers from different sized companies.

#### *General considerations regarding the analysed sample*

The majority of the companies involved in this study (58.1%) are active in the service field, 29% are industry based companies, 9.7% are active in constructions, and only 3.2% have agriculture as main object of activity.

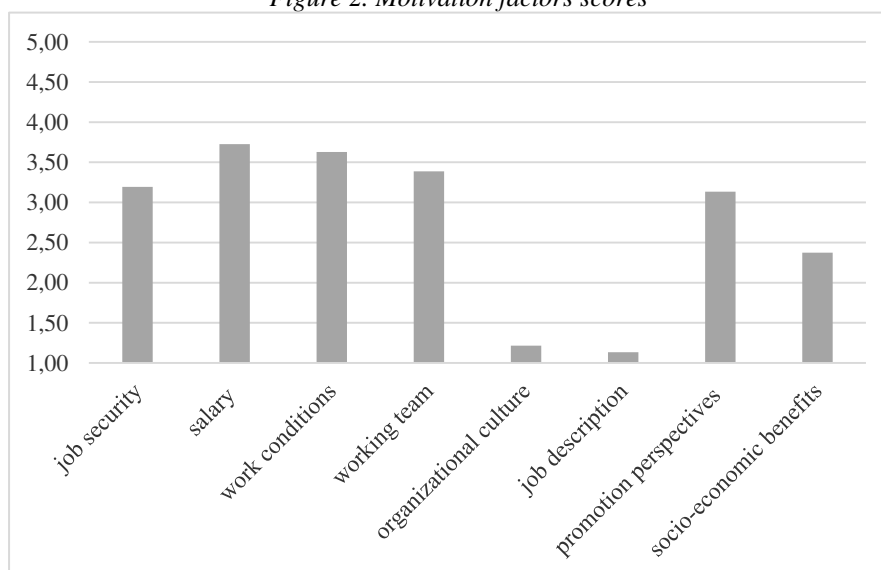
Most companies in the sample, 96.8% respectively, are private companies.

Analysing the structure of the sample from the size perspective, half of them have between 50 and 249 employees, 37% have between 10 and 49 employees, while only 12.9% are large companies with more than 250 employees.

#### **4. Data analysis and hypotheses testing**

A first question of the reward management section of the questionnaire focused on the evaluation of motivation factors used in the company (a five point semantic differential was used, from 1 – least important to 5 - most important). The enumerated motivation factors included: job security, salary, work conditions, working team, organizational culture, job description, promotion perspectives, and socio-economic benefits, such as company car, telephone, accommodation, medical and life insurance.

*Figure 2. Motivation factors scores*



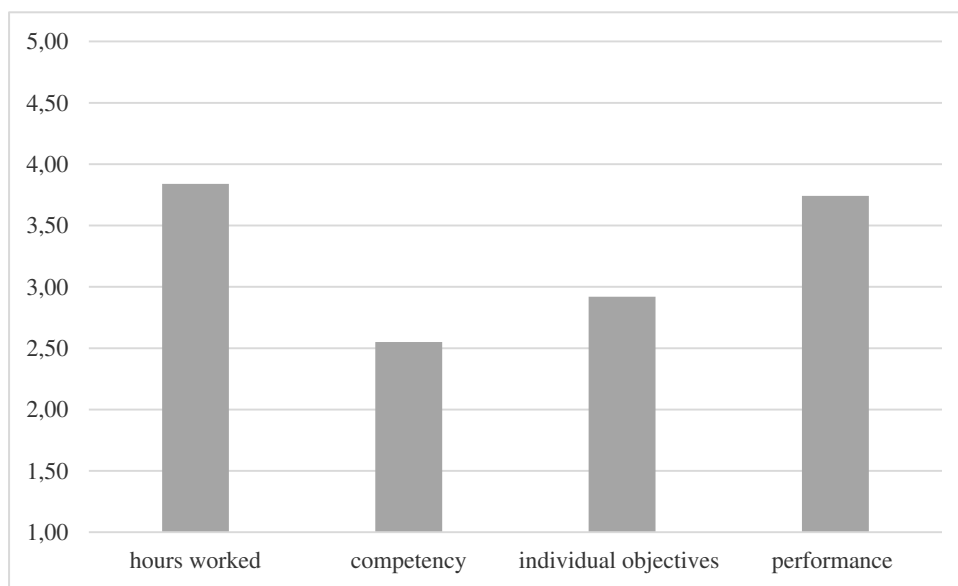
*Source: Data from survey*

As may be observed from Figure 1, salary and work conditions were perceived as most important motivation factors, with score of 3.73 and 3.63 respectively. On the other hand, perceived as least important were job description (1.13) and organizational culture (1.22).

The next question focused on obtaining managers’ opinion on the existence of a direct relation between rewards granted within the company and employee productivity; to this end a five point Likert type scale was used, ranging from -2 (rewards granted are not directly linked to employee productivity) to 2 (rewards granted are directly linked to employee productivity). The medium score obtained was 0.5 leading to the conclusion that respondents do not consider rewards granted as being directly linked to employee productivity.

Next, there was investigated the perceived importance of several elements (hours worked, competency, individual objectives, and performance) which may be correlated to the salary system within the company; a five point semantic differential was used, from 1 – least important to 5 - most important. As expected, the hours worked scored highest (3.84), followed by performance (3.74); individual objectives scored 2.92, while competency scored only 2.55 (Figure 2).

Figure no.3. Importance scores of elements to be correlated to company salary system



Source: Data from survey

The last two questions of the reward management section of the questionnaire focused on finding whether companies use variable supplementary payment correlated to evaluated individual performance, and to the team/working group/department performance respectively. The results showed that 33.9% of the companies use variable supplementary payment correlated to evaluated individual performance, and 45.2% use variable supplementary payment correlated to team/working group/department performance.

In order to test the first formulated hypothesis ( $H_1$ : There is a statistically significant association between company size and the practice of using variable supplementary payment correlated to evaluated individual performance.) a Chi Square test was performed. The test results,  $X^2(2)=0.601$ ,  $p=0.740$ , indicated there was no statistically significant association between company size and the practice of using variable supplementary payment correlated to evaluated individual performance.

Another Chi Square test was performed in order to test the second hypothesis ( $H_2$ : There is a statistically significant association between company size and the practice of using variable supplementary payment correlated to team/working group/department performance.). The test results,  $X^2(2) = 5.711$ ,  $p=0.058$ , showed no statistically significant association between the two variables.

In order to test the third formulated research hypothesis ( $H_3$ : There is a significant difference in

the assessment of the productivity-reward relation among managers from different sized companies.), a Kruskal-Wallis H test was performed, subsequently to verifying that all assumptions were met. The Kruskal-Wallis H test results showed there was no statistically significant difference in reward-productivity scores among different sized companies ( $X^2(2) = 0.520, p=0.771$ ).

## 5. Conclusions

The study of human resources management practices generated a great deal of interest for researchers. Such preoccupation is justified by the fact that such practices generate a major influence over the company's level of performance.

In order to achieve the targeted level of results the companies must deploy the appropriate set of human resources management practices. Such practices will ensure the right number of employees, with the right skills and proper motivation to perform according to the planned objectives.

Among these practices, the ones concerning the employee's reward present a particular importance. Developing the right set of reward practice will generate proper level of motivation of the company's employees. At the same time, in order to obtain a higher level of performance, the management should use those practices that correlate the payment level with the results obtained by the employees.

This paper aimed to analyse through an empirical study the usage of such innovative practices among local companies in Constanta County. The results obtained revealed that the major motivational factors for the employees are the salaries granted and the working conditions offered by the companies. Such results are normal and confirm the results of previous studies on this topic.

In what concerns the usage of supplementary variable pay schemes related to individual or group performances, the results indicate that there are no connections between the size of the analysed companies and the use of such practices, and that such schemes are used in a moderate manner. This situation confirms the results of some previous studies on this topic in Romanian companies, results presented in the second section of this paper.

The results of the study also indicate that there are no significant differences between the assessment of productivity-reward correlation and the size of the studied companies. This situation indicates that even the medium and large companies are still little preoccupied by this matter.

The situation revealed by this study indicates that the companies are not aware of the importance such practices have on the performance level and the benefits they could obtain.

This study could be further developed by extending the research questions and also the number of the studied companies, and by including in the investigated sample companies from other counties.

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## The Development of Boutique Hotels in Braşov City

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### Abstract

*Boutique hotels are hotel businesses dedicated to addressing a well-defined segment of customers. The development of the concept is an ongoing process, these accommodation units are already well known on the hotel market, thus reflecting their attraction among the guests. The paper highlights the main features of the boutique hotels, the specificity of the offer and analyzes the major global hotel groups in order to highlight their concerns in the direction of developing their own chains of boutique hotels. Aiming to identify the development of this hotel concept in our country, the paper also analyzes the units that fall into this category of establishments which operate in Brasov city.*

**Key words:** boutique hotels, hotel market, customer segments, global hotel groups.

**J.E.L. classification:** L83, M21, M31.

### 1. Introduction

The diversity of tourists' needs and preferences materializes in designing distinct tourism products and services aimed to satisfy tourist demand more accurately expressed. At the same time, it is well known that tourism is just another part of our consumer society, being affected by all the social trends which affect all consumer markets, albeit in different ways, and like other industries, it influences general consumer behavior to some degree (Horner *et al*, 2004, p.22).

Nowadays, the hotel market highlights the significant differences in consumption, in terms of tariffs, the comfort level of the offer, the variety of expectations, the diversity of travel motivations, etc. All these elements are the pillars to develop tailored hotel products, among which is included the concept of boutique hotels.

### 2. The boutique hotel concept

A hospitality concept is the total offering provided to guests. From guests' points of view, a concept is an experience, whilst from the company's perspective is an operating system (Hsu *et al*, 2002, pp.176-177).

Accommodation products of all types are perceived by customers as 'experiences'. The experience is organized and orchestrated to meet the identified needs and benefits sought by customer segments and it comprises a series of service operations. Hotel product experiences are complex and are influenced by physical elements (such as buildings and provision of food and drink), sensual benefits (experienced through sight, sound, touch and smell, and conveyed by the quality of buildings and their furnishings) and psychological benefits experienced as mental states of well-being, status and satisfaction (Middleton *et al*, 2001, pp. 390-391).

Although a relatively new element of the hospitality market, boutique hotels have grown quickly to become a major phenomenon in the industry today. Designer lifestyles and ‘designerism’ are the major phenomenon in the consumer culture of much of the world today, particularly among the higher level market segments. The hospitality sector is attempting to catch up with this aspect of modern consumerism through the rise of ‘boutique hotels’ (Horner *et al*, 2004, p.148).

A parallel between boutique clothes shops and boutique hotels is a prerequisite. Boutique clothes shops are typically small and selling fashionable items. The hotel equivalent is thus fashionable and has some limits in his size. A key characteristic is the design, which can manifest in a number of ways, allowing guests to identify the properties with phrases such as cool, urban, leading edge, and trendy. Even if not all operators in the boutique field see themselves in the same way, there still a key link, namely lifestyle.

An international organization, Boutique Hotels and Resorts International (BHRI) has been set up as an alliance of independent, genuine boutique hotels and resorts from around the globe (<http://www.boutiquehotelsandresorts.com>). Implicit in the promotional material about BHRI is the idea that somehow the concept of boutique hotels is being de-valued and undermined by the exploitation of the term by hotel chains.

The target market for the boutique hotels is the ‘new consumer movement’. Entrepreneurs without a background in the hotel industry have been major players in the rise of boutique hotels, such as Ian Schrager (Horner *et al*, 2004, p.151). They have brought new ideas with them which have influenced the ‘traditional’ hotel industry. In most cases, the concept of a boutique hotel embraces a number of product attributes, including all or some of the following:

- an emphasis on design, particularly interior design, and making it distinctive from other hotels;
- focus on embracing high-tech developments particularly in terms of the bedroom environment;
- a high level of personalized service;
- providing a stress-free relaxing environment;
- offering guests well-known luxury brands of complementary products.

Boutique hotels are considered to be a reaction against the standardization of the hotel product seen throughout much of the world. Some of the chains which have led this standardization process are now trying to develop brands in the boutique market.

Boutique hotels have recently developed in all world regions. For most boutique hotels, their web site is their main promotional tool and for many of them, guest comments and feedback are prominently displayed within their web site (Horner *et al*, 2004, p.155). The Internet and electronic communication have generated significant changes in the marketing strategies of accommodation units (Băltescu *et al*, 2015, p.149). Expanding online communication will influence management and future development of tourism companies activity (Băltescu, 2015, p.147). The future of boutique or designer hotels will depend largely on factors outside the control of the industry such as changes in consumer culture and globalization, for instance.

### **3. The development of boutique hotel chains inside the major international hotel groups**

The major international hotel groups operate numerous and distinct hotel chains highlighting their concerns towards the utmost satisfaction of different customer segments. Some of them expanded their operations into the boutique sector, thus recognizing the evolution of this hotel concept. The hierarchy of the top 10 hotel groups by number of rooms, at the end of 2014, is presented in Table 1.

InterContinental Hotels Group (IHG) comprises a distinct hotel chain, namely "Indigo", representing the group’s specialization in the boutique market. The consumers experience is summarized by the motto: Travel like an explorer - Stay like a local. The 65 Indigo hotels offer features that are unique, combining authentic local experience with a modern hotel design, individualized service with the peace of mind and consistency of staying with one of the world’s largest hotel groups (<http://www.ihgplc.com/index.asp?pageid=408>).

The French hotel group, Accor, also comprises a boutique hotels chain, namely "MGallery", with 82 hotels operated in 23 countries. Each of these hotels has a unique personality and story, experienced by guests through architecture, interior design and services. The chain features three

typical atmospheres. Some hotels present "Heritage" origins, places filled with history; others reflect an aesthetic universe, a style, the "Signature" of a personality that contributed to their creation or decoration; still others promise a relaxing time, "Serenity" in a natural or urban retreat. (<http://www.accorhotels-group.com/en/brands/brand-portfolio/mgallery.html>).

Table no. 1 World's biggest hotel companies ranking in 2014

2014 Rank	Company	Location	2014 Rooms
1.	Hilton Worldwide	Virginia, USA	715.062
2.	Marriott International	Maryland, USA	714.765
3.	InterContinental Hotels Group (IHG)	Denham, Anglia	710.295
4.	Wyndham Hotel Group	New Jersey, USA	660.826
5.	Choice Hotels International	Maryland, USA	500.000
6.	Accor	Paris, Franța	482.296
7.	Plateno Hotels Group	Guangzhou, China	442.490
8.	Starwood Hotels & Resorts Worldwide	Connecticut, USA	354.225
9.	Shanghai Jin Jiang International Hotels Group Co.	Shanghai, China	352.538
10.	Best Western International	Arizona, USA	303.522

Source: *HOTELS 325 Rank, July/August 2015.*

The Chinese hotel group, Plateno Group, has also developed a special brand in order to address the boutique hotel market. Their "Maison Albar" is a French luxury boutique hotel brand with a hundred years of history. Since 1923, these hotels bring out cultural and family heritage through a unique story, unveiling a new experience of authentic and elegant French lifestyle, with strong emphasis on tailor-made service with a natural home feeling (<http://www.plateno-hotels.cc/en/group/maison-albar/about#maison-albar>).

The "Design" hotel chain from the Starwood group is another example for the worlds' biggest hotel groups' involvement in the boutique market. Design Hotels embraces properties that are crafted with the purpose of creating original experiences and unexpected moments that provide lasting memories, being deeply involved in the local scenes. The member hotels are characterized by innovation and creativity in the hospitality industry, offering authentic and original experiences. More than 400 hotels apply for membership with Design Hotels each year, but only about 5 percent of them are approved. Each member hotel is carefully selected to cater to the needs of modern travelers searching for the unusual, the individual and the unexpected (<http://www.starwoodhotels.com/design/about/index.html>).

It can be noticed that there are important hotel groups that emphasize and encourage the uniqueness and innovation through the development of different boutique hotels chains. These hotels are featured by authentic design, modern rooms and facilities, combining the luxury and intimate atmosphere with the location unique experiences.

#### 4. The analysis of boutique hotels operating in Brasov city

In the first two months of 2016, the percentage of tourists arriving in Brasov County who were accommodated in hotels was of 63% (<http://www.brasov.insse.ro/phpfiles/BSL%2002%20-%20Brasov.pdf>). Almost 90% of these tourists booked hotel services in three star accommodations units and more than three stars, which shows that Brasov is visited by tourists with medium and high income level. These elements highlight the presence of some essential prerequisites needed in order to develop boutique hotels. At the same time, it is worth mentioning that the number of boutique hotels operating in Brasov city is rather low.

*Chambers'n Charm Boutique Hotel* is a stylish unit located on the road to Poiana Brasov with nine spacious rooms and suites, each decorated in a different theme: Provence, Gold, Scandinavian 1 and 2, Baldaquin, Red, Romantic, Baroque and Marrocan. Each of the 9 rooms is unique in its mix of antique and modern designer furniture. The tariff is also different, according to room type,

starting from 70 € up to 135 €. Services such as breakfast, bar, room service, a la carte restaurant, private parking, garden furniture and other complementary services are added. In recognition of quality and value, the hotel is a Hilton Diamond Club partner (<http://www.chambers-charm.ro/page-presentation/9.html#.VyjFxoSLTIU>).

*Mikaela boutique hotel* is characterized by mystery and sensual freedom. All of the six rooms are equipped with large, King beds, but differ in size and decor. In each room the bed has a LED display in different colors, which helps to distinguish the rooms. Room rates vary from 50 € up to 140 € (<http://www.hotelmikaela.ro/index.php>).

*The Rizzo - Boutique Hotel* is located in Poiana Brasov, is a larger hotel unit, comprising fifty-four rooms which offer the guests a lavish ambience where the smallest details – from the smoothness of satin sheets to jet shower-heads, LCD screens and wireless internet – have been attended to, and eight suites with designer spacious living rooms, kitchenette and bar counter. The indoor pool and conference amenities complete the hotel offer (<http://www.rizzohotel.ro/en/>).

A final example for this type of accommodation units operating in Brasov city is *Casa Albert*, located in Brasov’s historical center. The five rooms and two suites offer a "vintage" atmosphere, rising especially by the old, reconditioned furniture, by the warm colors and special accessories. The uniqueness of this unit is provided by the mural paintings representing famous historical monuments of the city (<http://www.casa-albert.ro/en/>).

According to the Romanian National Authority for Tourism, only three of these four units are classified. Chambers’n Charm is a four star villa, Rizzo Hotel is a four star hotel and Casa Albert is a three star rooms for rent unit type. As for the Mikaela hotel, the establishment is not yet included among the classified accommodation units in Romania for 2015 (<http://turism.gov.ro/informatii-publice>).

## 5. Conclusions

Boutique hotels are a rapidly growing phenomenon within the hotel market, and represent a link between the hotel sector and consumer society, as a whole. They are not yet a clearly identifiable destination single product. Instead the term ‘boutique hotels’ appears to be an umbrella term for several types of hotels which are all a reaction against large-scale standardized chain hotels.

To the extent that tourists will be increasingly more interested in these accommodations units which offer their guests an experience characterized by elegance and uniqueness, investments in this establishments could be considered profitable. In these hotels staff provides individualized services to guests, thus favoring rising results. It should not be overlooked that tariffs level is high, but by finding suitable clients and with appropriate loyalty programs, we can talk about business perspective. The target of the continuous improvement of quality is the development of the company simultaneously with satisfying and attracting loyal customers (Madar *et al*, 2013, p.64). Likewise, the companies in the hospitality field must be aware of the need to approach the customer, the need to build a long-term relation with this one; moreover, the classical communication modalities are no longer relevant in achieving this goal (Chițu *et al*, 2013, p.101). Only time will tell if boutique hotels are a short-lived fashion or a permanent feature of the worldwide hotel market.

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## Neuro-Linguistic Programming Principles in Negotiations

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### Abstract

*Neuro-linguistic programming is one of the newest science in psychological field. It was developed in years of '70 by a mathematician and a linguist and it can be used for increasing personal development skills. It has a set of unique techniques which can be used to reach different types of advantages in interpersonal relationships. There are also a few voices who charge NLP practitioners for using the techniques in manipulation purpose.*

*This article aims to make an introspection among articles that treat neuro-linguistic programming principles and identify the implications of this science in negotiations.*

**Keywords:** neuro-linguistic programming, negotiation, business, communication, NLP

**J.E.L. classification:** M310

### Introduction

This article aims to make an introspection among articles that treat neuro-linguistic programming principles and identify the implications of this science in negotiations.

In the last twenty years, business development began to concern increasingly more people. Corporations and big companies have realized that it might obtain significant results by paying attention of this subject. In this way it appeared new areas of interest as knowledge management, organizational behavior or personal development, all having in common the individual. They realized that in the final, development of the individual, leads to a development of the organization. Because science concerned with the study of human behavior is the psychology, specialists from this domain have tried to find solutions to the company's problems.

One of the most recently appearance in the psychological field is neuro-linguistic programming. It aims, as its developers said, is to discover the structure of human excellence. Combining mathematical algorithms with linguistic elements and observing human behavior they have created a concept that gains more and more followers worldwide.

As for research, there wasn't a lot of concern for transposing elements from NLP into business. Existing studies usually treats NLP as a therapeutic technique (as a science of human behavior) than as a pillar that can support employee development processes. Few researchers have developed a correlation between this two fields, so I think it's interesting and intriguing this leak of concern.

In this study I will analyze some NLP principles found in articles and I aim to correlate them with two styles of negotiation (distributive and integrative).

The purpose of this study is to identify and highlight specific elements of neuro-linguistic programming, applicable in negotiation. In the same time, it aims to make a correlation between a sciences from the psychological field with business.

The study objectives are:

O1: To define neuro-linguistic programming and to identify its principles

Through this objective I intend to realize a brief summary of the evolution of neuro-linguistic programming and highlight its characteristic elements. Being a science, neuro-linguistic programming have of course a value system, a methodology and a number of techniques. By this objective I propose to expose a set of fundamental principles from NLP, which I consider to be the most representative.

O2: To establish correlations between NLP principles and typologies of negotiation (depending on their purpose;

Negotiations can be divided into many categories; for the present study, I aim to analyze the negotiating styles as Professor George Siedel from the University of Michigan described it. With this goal I set out to analyze the principles of NLP according to their usefulness in negotiations.

### **Design and methodology**

For documenting the research I applied the content analysis. Data base for study was created from 20 references published from 2008 to 2015. These were published on major publishers and treats various topics, including ontology NLP, conflict resolution using the principles of NLP, NLP impact on sales, or NLP for leaders and managers.

In the same time I filter the information expressing my own perception on the subject, based on a practice of 5 years in negotiation from managerial positions and the NLP practitioner certification I hold.

### **Results**

Neuro-linguistic programming was developed in years '70 by the mathematician Richard Brandler and linguist John Grinder and is a model of human behavior who analyze how people describe their world, how they interact and communicate, how can they feel the happiness in interactions and how they can be helped to change the own representation of the community. A fundamental premise of the early work done by Brandler and Grinder was that they wanted to study people who were excellent and to identify what specifically they did to achieve this (Graham, 2006, 13).

On the beginning it was described as a science applicable only in psychological field, as a treatment base in psychotherapy. Because in years '70 – '80 people was addicted to knowledge, appearing a new science who promised to complete the theory about psychology, it was quickly propagated between scientists. Neuro-linguistic Programming operates from a positive context; it assume that all the human action is positive in intention (Craft, 2001, 127). Some of them was enthusiastic about the new phenomenon, others said it was just a way to advertise. The fact is that idea of neuro-linguistic programming has past the years and it began to be more visible. For now, the International Association of NLP said it have over 100000 followers all over the world.

By reduction to fundamentalism, the neuro-linguistic programming is a set of instruments, which induce the influence of human behavior while aiming to reach the maximum potential from every human being. These was developed combining linguistic elements with psychological and algorithms and the result was a complex methodology, which being used right, can reach the purpose for which it was created.

According to studied articles, I identified the next NLP techniques:

- Language meta-model;
- Pacing – Report creation;
- Sensorial acuity;
- Inner state management;
- Questioning technique ;

In the following section I will briefly describe each of them in a turn.

#### Language meta-model

The *Structure of Magic* introduced the core language model of NLP, called the meta-model, which remains central to the field (Gold, Thorpe and Mumford, 2010, 5). Is a set of principles and rules who is grounded in clinical hypnoses, counting on Ericksonian Language. This kind of language was developed and applied with success by the American psychologist Milton Erickson in years of '70 and is one of the famous techniques in noninvasive psychology.

Specificity of this technique consists in the way that the question are made; it have to induce the answer in the same time. Thus, instead of using questions as “which will be the priorities if we will sign the contract?” it is preferred to ask “which will be the priorities after we will sign the contract”.

### Pacing – Report creation

It is well known that once you can transpose in interlocutor's state, you have more chances to gain the negotiation. In any communication, the existence of a relationship is vital, a relationship of empathic resonance between the two partners as basis of the mutual confidence which the other can feel free to manifest (Zamfir, 2011, 1338). The technique of report creation assume exactly this fact: that the practitioner can see the image (in this case, the negotiation) through partner's eye, to figure out his point of view and how it will take the next actions. In this way, he will be able to anticipate the partner's movements and he will know to counterattack it.

Report creation assume in the same time the alignment to interlocutor; and here I'm referring both behavioral alignment and verbal (with non-verbal and para-verbal categories). It is known also the fact that when two people think the same, talk the same, behave the same, there will be more chances for that people to understand each other's.

### Sensorial acuity

In a negotiation process, self-control is a very important instrument. As in poker games, every gesture or grimace can tell many things about yourself to an experimented negotiator. As higher levels of interest are elicited, intention and behavior start to separate and ultimately, common ground can be reached (Vinyamata Tubella, 2011, 3). From disturbance to irritation, from pleasure to enthusiasm, body expressions reveals in the most of the time the inner states. Sensorial acuity work on this level: teach the practitioner to focus on the partner's body expressions. In the beginning it will observe only the evident reactions, as the experience deepens, he will observe the details which at the first sight it will appear to be insignificant and at the master's level he will be able to observe and read even the micro-expressions of the face. In this domain, the focus on detail can represent the difference between a successful negotiation and a losing one.

### Inner state management

As I have mentioned, the inner state control is very important and beliefs can also be limiting, a fact which will have a negative impact on all the other levels, especially on the capabilities level (Zamfir, 2012, 752). If using the sensorial acuity technique, the practitioner learn how to read the partner's state, here in the inner state management, he will try to add a mask on his. As he advanced in practice, he will be able to hide emotions as well as joy or angry. By not giving clues to negotiation's partner about your inner state, he will not know if his offer is satisfactory or not, and this thing brings a net advantage in the negotiation.

### Questioning technique

For giving complete solutions to other people, the main condition is to have all the information you need. When you lose one or more facts, your solution can be under the solution of the opponents. Knowing what different people may not share the same reference experiences and meaning for the same word can enhance the quality of one's communication (Lee, 2000, 65). That's why, questioning technique means to ask as much as you need questions, to understand deeply the requirements.

One of the NLP axiom is that the map isn't the same with territory. That means if 10 people looks at a scene, each of them will have one opinion about what they had seen. And that fact is because the previews experiences who according to the butterfly effect from the chaos theory, define the human being through every action they take until that moment. Starting from these reasons, the questioning technique aims to clarify the interlocutor's point of view and to offer the practitioner a complex image of the situation.

## **Typology of negotiation**

Negotiation processes can be divided in many categories. For this paper, I will analyze the categorization made by Professor George Siedel from Michigan –USA, who said that the negotiations can be distributive or integrative (Siedel, 2014, 67). The distributive negotiations are generally speaking, win-lose typology, in which the partners dispute the supremacy on different aspects (prices, territories etc.). In the other side, the integrative negotiations are collaborative negotiations, in which two or many partners collaborate to maximize the initial value.

To understand the difference between the two categories, let's take the following example: Let's say we have a pie disputed by 4 partners. In the distributive negotiations, each of them will want to



assure the biggest part of the pie and usually, this type of negotiation will end with the frustration of one or many of them. In the other side, in integrative negotiations, every participants agree with the idea that everybody needs a bigger slice so they work together to extend the pie. In the most of the cases, this type of negotiation are win-win.

#### Negotiation typology correlation with NLP principles

In the rows above I identified five neuro-linguistic techniques and two negotiation typology. In the following part, I will point out for the every typology, what techniques are necessary.

Distributive negotiation:

- Language meta-model: because is extremely important for a negotiator to use that words and expressions that make the partner to trust him.
- Report creation – using the same principles, that people accept easier the people who look alike, report creation is very important in a distributive negotiation.
- Sensorial acuity – high focus on details can make the difference between a successful negotiation and an unsuccessful one, that’s why sensorial acuity is an element extremely important for negotiators involved in distributive negotiation.
- Inner state management – to mask the emotions represent an essential skill for an experimented negotiator, that’s why this NLP technique is highly important, especially in distributive negotiations.

Integrative negotiation:

- Report creation – the same as in distributive negotiation, the report creation is very important here to. Once you solve this aspect, the communication with partners will be more facile.
- Questioning technique – considering that we deal with a collaborative situation between many partners, the questioning technique is a very important one.

### **Conclusions**

Neuro-linguistic programming is an interesting domain for many people. Despite aren’t many works in the specialty literature who link this domain with business, I express the belief that in the future, this think will set up (however, it exist a literature at the limit between belletristic and personal development who treat subjects like this).

The analyzed articles was taken from the well-known journals and had debated the NLP technique implications in negotiation. As was observed from the research results, the authors focused on language part and report creation of NLP and less on sensorial acuity; that’s because the analyzed journals was economical one. If I was analyzing psychological journals, the issue probably was inverse.

There are many voices who say that using the NLP techniques isn’t very moral because it is trying to influence the human behavior. The same with the other elements which was created in a purpose and used (by a small number of people) in others, it is true that NLP techniques can be used in malicious aims. The dividing line between influencing and manipulation is very thin, therefor the practitioner who is using that techniques have to make the difference between them. As a steel chisel in the hand of malicious men can create real dramas and in the hands of artist, can create real masterpieces.

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## Environment-Oriented CSR Activities of Romanian Companies

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### Abstract

*Corporate Social Responsibility (CSR) is a concept largely adopted by companies in the last decennia. CSR initiatives undertaken by companies cover several domains, among which the environment appears to be a preferred one. Presently, more and more organizations initiate specific actions supporting the protection of the environment and the education in this domain. This work aims to present the main CSR programs and activities initiated by Romanian companies in the field of environment protection and their benefits in the support of environmental management system.*

**Key words:** corporate social responsibility, corporate environmental responsibility, environment protection

**J.E.L. classification:**M14, Q57

### 1. Introduction

The Corporate social responsibility (CSR) concept was introduced by H.R. Bowen, as representing "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are *desirable in terms of the objectives and values of our society*" (Bowen, 1953, p.6). CSR idea is supposing that the organizations integrate voluntarily social and environmental issues into their business activities and into the relations with their stakeholders. A socially responsible company is considered the one investing in human resources and the environment, over the level conforming with the law (Chahoud et al., 2007, p.17). However, as emphasized by EU Commission documents (2001, p.8), "CSR should not be seen as a substitute to regulation or legislation concerning social rights or environmental standards, including the development of new appropriate legislation". Regarding the definition of CSR, there are opinions conditioning their nature on the lack of profitability for the company (Friedman, 1970, p.6). Kotler and Lee (2005, p.3) consider the CSR as "a corporate commitment to improve community well-being through discretionary business practices and allocation of corporate resources". Reinhardt, Stavins, and Vietor (2008, p.7) define CSR as "sacrificing profits in the social interest". Baron (cited by Lyon and Maxwell, 2008, p.2) is distinguishing "CSR actions" (driven by philanthropic reasons and being unprofitable) and "strategic CSR actions" (which are gainful for company). Carroll (1979, p.4) has named four types of CSR's (economic, legal, ethical and philanthropic), related to three levels: institutional, organizational and individual. Mc Williams, Siegel and Wright (2006, p.3) examined the strategic values of the CSR, by the prism of the resource-based-view-of-the-firm (RBV) principle. The authors consider CSR as a form of strategic investment, viewing it as a mean of 'reputation building or maintenance', and consequently there are necessary predictions regarding the organization's investment policy to support its CSR agenda.

Lyon and Maxwell (2008, p.1) define the environmental CSR as “environmentally friendly actions not required by law, also referred to as ‘going beyond compliance’, the private provision of public goods, or voluntarily internalizing externalities”.

In a thorough analysis of CSR phenomenon, Portney (2008, p.263-265) is underlining the reasons determining the firms to engage in CSR activities and the impact of these on business, investments and environment policies. The main reasons of CSR activities inventoried by author are: (i) to help companies to win favor with their current and potential future customers; (ii) to encourage employee loyalty and goodwill; (iii) to make them more attractive to potential investors; (iv) to increase the goodwill in the communities in which companies have their customers, headquarters, and/or operating facilities; (v) to improve their relationship with the government or local agencies monitoring and regulating their activities; (vi) to improve the company’s bottom-line (the belief that customers will be more loyal and more eager to pay for the products and services of companies with rich CSR achievements).

Presently, the European Union pay a particular attention to developing and implementing this concept, creating in 2002 a CSR Forum, having as objectives to promote CSR by improving the knowledge about the relationship between CSR and sustainable development and by facilitating the exchange of experience and good practices in this domain (EMS-CSR, 2004, p.3).

In spite of the popularity of CSR, there are also critics affirming that it is dominated by more by rhetoric and less by action or that “it has made corporations too risk-averse and redirected management time and financial resources away from the corporations’ core economic mission” (Vogel 2005, p. 12).

This work debates the development of corporate social responsibility, with special focus on environmental issues. The analysis refers to companies of different sizes, active on the Romanian market, conducting business in various areas.

## **2 Corporate environmental responsibility**

The responsibility towards the environment represents a main component of CSR. It refers principally to the impact of company activities on the environment and is called, alternatively, ‘corporate environmental responsibility’ (CER). Mazurkiewicz (2004, p.2) defines environmental responsibility as “the duty to cover the environmental implications of the company’s operations, products and facilities; to eliminate waste and emissions, maximize the efficiency and productivity of its resources and minimize practices that might adversely affect the enjoyment of the country’s resources by future generations”. According to Dumett (2008, p.47), CER is “complex and multi-dimensional”. It includes the organizations approaches and policies regarding the use of natural resources, wastes recycling and disposal, orientation towards environmental friendly technologies and products, limitation of pollutant emissions in atmosphere and tight control of polluting sources. CER may take various forms, depending on organization profile, dimension, priorities and needs (Jamison,2005, p.9). Concerning the relation between management of environment and CSR, Patil (2014, p.2) notes that “The answer to the basic question why corporate sector should focus on environment and its sustenance is controversial”. The actual global problems of environment deterioration and climate change represent a complex combination of a multitude of impacts of various human activities, difficult to explain, avoid or even diminish. As pointed by Cairncross (1995, p. 16 and p.20), there are two ways to diminish the impact of economic activities on the environment: (i) adequate governments policies and decisions makers’ education to include in their analyses the environmental issues; (ii) by changing technologies, making them more sustainable and more green.

Nevertheless, there are many evidences proving that all the new technologies are cleaner, greener, more efficient and have an increased degree of sustainability, especially in terms of energy and raw materials consumption. There are also opinions that without effective environmental policies, including economic motivations such as carbon taxes and backing to invest in environmentally friendlier and more sustainable technologies, it is unlikely to achieve the results desired by society in the domain of environment protection and climate change (Jaffe et al., 2004, p.11-12).

The main factors, driving the businesses sector to become environmentally responsible are government legislation or threat of legislation, cost savings, market advantage, protection or enhancement of reputation and brands, avoiding risk or responding to accident or environmental threat, pressure from shareholders, pressure from consumers, pressure from non-government organization, societal expectation (Dummett,2007, p.107). The way in which a company affects the environment in which operates depends on its characteristics, as well as the pressures that are exerted by external stakeholders and of course by the desire to improve relations with the community. As a response to the pressure of politicians, regulators, customers, competitors and local communities, more companies became concerned of the need to protect the environment and to initiate activities in this regard. As an example, a company which activates in industry must minimize the effects it has on the environment in production processes, the effect of products itself, packaging, distribution and other activities. Consequently, the company could take initiatives leading to identify ways to diminish electricity and gas use, attracting customers to care about the company's environmental footprint, protect natural resources and find alternate resources for their products and services. These initiatives are taken in consultation with consumer groups. As a result, appear opportunities for developing new products and manufacturing technologies minimizing the environmental impact.

The companies adopting environmental initiatives in their own business strategies, reducing the impact on the environment and contributing to preservation of natural resources (by using renewable raw materials or using recycled materials) are usually gaining some advantages, as compared with companies not involved in such activities. These include increase loyalty, attract and retain staff, new customers, attract new investors, extend their supply chains, realizing greater cooperation with members of community, creativity and innovation in technology and production process, good reputation and a good brand name. It is appreciated, by quantifiable data, that the CSR initiatives in the domain of environment have produced, so far, the greatest positive financial results (Mazurkiewicz, 2004, p.17).

### 3. Initiatives of Romanian companies adopting corporate environmental responsibility

CER is a subject approached in numerous papers analyzing the implication of Romanian companies in environment protection. The main sources used are the specific information available on the websites, and the annual reports of companies. Table 1 gives an overview of the main CER projects and achievements of the Romanian companies in the last decade. The data given in this table are evidencing that the Romanian companies recognize the importance of environmental issues confronting our society. The actions of the companies include ecological education, conservation of biodiversity, collection of waste, energy consumption reduction, recycling, reduction of electronic waste, protection of water source, protection and rehabilitation of urban green space, the use of bicycles as a means of transport etc.

*Table no.1 The activities of companies active in various areas on Romanian market directed towards environmental protection.*

<b>Areas/Company/Program/Details</b>
<b>a. Financial Services Industry</b>
<b>BCR (Romanian Commercial Bank – Erste Group)</b> -Project Turceni – started 2009, participation in EBRD financing the rehabilitation of 6 units of Turceni Power Plant -Projects for improvement of water quality: participation in the public auction organized by Aries Water Company S.A for the expansion and rehabilitation of water and wastewater in Turda. -Recycling paper (2009): a system for collecting and reducing paper consumption by setting up e-banking service - Corporate Volunteering Campaign Orchard, BCR partner "MaiMultVerde" between 2009-2011.
<b>BRD (Romanian Bank for Development – Groupe Societe Generale)</b> -The "Botanical Garden", 2006-2008,"Cleaning Day" partner Teamwork, attended by 150 students who cleaned Bucharest Botanical Garden - Program to reduce carbon emissions from its own activities (energy, paper and business trips) - started 2010, 60000 euro investment.

<p><b>OTP Bank Romania</b> -Reduce the number of business flights with 50% in 2013 compared to 2012 by using video conferencing infrastructure. - Reduce the consumption of energy, water and paper in 2014 at the headquarters and branches in Bucharest. The result was the collection of waste paper (up to 10.5 tons), printer cartridges, electronic waste and used batteries.</p>
<p><b>Raiffeisen Bank</b> -Reduce fuel consumption and paper with 8% in 2014 by bank employees. -Project 'Velo' - bike-sharing,(2009)- there were created parks in several cities where bikes can be rented - Investments to support actions for protecting the environment. These represented about 19% in 2013 and 35% in 2014 of total investments in social responsibility projects.</p>
<p><b>b. Food and Beverage</b></p>
<p><b>Coca Cola HBC Romania</b> -Program for conservation and protection of water resources by 40% until 2020 compared to 2012 by treating and reusing wastewater. -Program of reduction with 50% of CO2 emissions in 2014 compared to 2004 by building co-generation plants. -Program for the reduction, recovery and recycling of packaging by using plastic with low density for packaging manufacture with 34% in 2012 compared to 2002. -Education greening project "Verde 003", by the campaigns "Planteaza nu vegeta "(2007) and " Sa fie limpede " (2009), partners Tasuleasa Social and "MaiMultVerde". -Driving schedule and environmentally responsible (2009) - winning the attention and education program staff .</p>
<p><b>Danone Romania</b> -Reduce the carbon footprint by 30% between 2008-2012 and with 50% until 2020 -Reduce the amount of packaging by use plastics with low density for packaging manufacture and recycling them. Collection of packaging (an amount at least equal to that produced) - The construction of a water treatment plant ( 2005), with a capacity of 1000 cubic meters, so the purified water is discharged into the public sewer system. -Reduce Energy consumption by 28% in the factory in the last 4 years.</p>
<p><b>Tuborg Romania –</b> - Program "Umbrella Verde "(2007), partners Fundatia Mereu Aproape si Ministerul Mediului, - collection of PET bottles by the beach Costinesti and Sinaia Cota 1400. -Caravana Eco (2009), in towns Cluj, Timisoara etc, promoted positive examples of these cities. -Competition "Capitala Verde a Romaniei"( 2010), aimed to educate citizens to respect the environment</p>
<p><b>c. Automotive</b></p>
<p><b>Dacia Groupe Renault</b> -Program to reduce the carbon footprint by 3% during 2010-2016.</p>
<p><b>d. Energy</b></p>
<p><b>Enel Romania</b> -Investment for renewable energy power plants in Banat and Dobrogea, through Enel Green Power, with an installed capacity of 500 MW as of end 2012 -Investment for research and development of low-pollution equipment. -„Zero emission” program – partnerships with universities and research institutes in order to study how to prevent the emission of gas generating so called „Greenhouse effect”</p>
<p><b>GDF SUEZ Energy Romania</b> -Project „Dâmbovița Verde”, (2007) course planning and green space along the river Dambovita, between Calea Victoriei and Bridge Ciurel. - 2009 – support the event „Curățenia de primăvară” organized by Asociația Team Work in order to clean botanical gardens in Bucharest and Craiova. -Partnership with “Habitat for Humanity” for the renovation of 12 houses in the frame“SOS Casele Copiilor Bucuresti” in order to improve energy consumption. -2011, Partnership with “Viitor Plus” – for project “ Valea Teleajanelui –Ecomunitatea ta” attended by 1000 students.</p>
<p><b>KMG International NV (former Group Rompetrol NV)</b> - 2013 Investment in biodiversity conservation projects in areas in which the company operates (the rehabilitation of drainage system used in Petromidia, protecting groundwater, Lake Siutghiol and the Black Sea, decontamination of polluted land due to the industrial activity on the platform.</p>
<p><b>MOL Romania</b> -Program “Scoli pentru mediu”( 2006-2007) in partnership with “Fundatia pentru Parteneriat” with the</p>

<p>participation of students and young people in actions of afforestation and develop green belts (Harghita). In 2008 there were supported 28 initiatives involving 11,000 volunteers</p> <ul style="list-style-type: none"> <li>- Projects(2009) for protection natural areas.</li> <li>-Program (2012) to collect used cooking oil from households.</li> </ul>
<p><b>ROMGAZ</b></p> <p>-<i>Upgrading the energy efficiency of Medias Municipal Hospital</i> (2015) by reduce energy consumption with 10% by installing heat pumps and solar panels.</p>
<p><b>TRANSGAZ</b></p> <p>--The "Green Olympics" (2010), project with a budget of 3.000 lei, followed community awareness on environment protection (Medias at competitions on environmental issues, partners Eco-Sal and Primaria Medias).</p>
<p><b>e. Telecommunications</b></p>
<p><b>Orange Romania</b></p> <ul style="list-style-type: none"> <li>- <i>Reducing the carbon footprint</i> by implementation in the company's headquarters a locking system of computers after 8 o'clock p.m and a system for collection and recycling of paper and printer cartridges.</li> <li>- <i>Buy-Back program</i> (2009) through which in 2014 were collected 421.000 electronic waste..</li> <li>The "<i>bike tie</i>" (2010), in partnership with the Green Revolution;</li> <li>-<i>Projects for protecting biodiversity</i> and preserving agricultural landscapes (in conjunction with ADEPT). Financial resources granted ADEPT Foundation Orange exceeded 1 million euro in 9 years.</li> <li>-Orange and WWF launched an eco-labeling system that evaluates the environmental performance of mobile phone.</li> </ul>
<p><b>Telekom Romania (Cosmote Romania and Romtelecom)</b></p> <ul style="list-style-type: none"> <li>-Cosmote-Program accountability to the public and its employees. Campaign "I Love Recycling" (2013) partner "MaiMultVerde Association". Created a website (2014), teimplici.ro, where everyone can propose and vote domains and subdomains that will be introduced in the company's social responsibility strategies.</li> </ul>
<p><b>f. Constructions</b></p>
<p><b>Holcim Romania</b></p> <ul style="list-style-type: none"> <li>-Investment in product development with low carbon foot print by building plants for co-processing waste using waste as a fuel. In 2013 was inaugurated a station for heat recovery in Alesd, -15 million euros investment. Other participants were partners local and central authorities, ANRE, ministries etc.</li> </ul>

*Sources:*

[http://www.responsabilitatesociala.ro/images/stories/companii\\_studii\\_caz/bcr/bcr\\_raport\\_good\\_csr\\_2009.pdf](http://www.responsabilitatesociala.ro/images/stories/companii_studii_caz/bcr/bcr_raport_good_csr_2009.pdf), <http://www.responsabilitatesociala.ro/companii>, <http://www.maimultverde.ro/>, [www.brd.ro/despre-brd/responsabilitate corporativa](http://www.brd.ro/despre-brd/responsabilitate_corporativa),<http://www.daciagroup.com/responsabilitate-sociala/dezvoltare-durabila/reciclarea-beneficiul-tuturor>, <http://www.danone.ro/danone-se-implica>, <http://www.enel.ro/>, <http://www.energiepentrufaptebune.ro/>, [www.gdfsuez.ro](http://www.gdfsuez.ro/), <http://molromania.ro/>, Report of Social Responsibility 2014 Orange Romania(<https://www.orange.ro/about/raport-ro.html>), <https://www.otpbank.ro/despre-otp/despre-noi/responsabilitate-sociala/rapoarte-csr>, <http://www.transgaz.ro/>

**Conclusions**

This work is evidencing the main definitions of CSR, the evolution of the concept and the advantages of the firms' initiatives in this field, as depicted by different researchers. Special emphasis is put on the CSR initiatives in the field of environment protection and its interlinks with the economic development. A general accepted conclusion of the published investigations is the necessity to adapt the governments' policies and technology development towards environmentally friendlier decisions, more green and more sustainable processes and products. The inventory of the main CSR initiatives of Romanian companies is evidencing an incipient stage in this domain, limited to small scale activities. Nevertheless, it is to underline a rather large number of activities reported and, more important, its trend to increase in frequency and consistency.

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## Orientation and Integration of New Employees in an Organization Hotel

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### Abstract

*The tourism industry is an industry of "labor" because the employees who work in direct contact with customers depends on the success of the organization. Hotel staff is the image of an organization, thus requiring a certain prestige from its standard defining the policy and organizational culture of the company. Hence the role of integration employees in the hotel as a factor determining the quality work of the new employee, its performance and hence organizational performance.*

*The aim of this study is to highlight the role and importance of the integration process, orientation and training of new employees within an organization hotel. To achieve was analyzed professional orientation program for new employees in the department reception at Hotel Dali Constanta, offering a guide to best practices be reflected in the behavior of employees to hotel guests in the future.*

**Key words:** hotel, career, tourism, management

**J.E.L. classification:** M12, M51

### 1. Introduction

The hospitality industry is a versatile and interesting field. Because of the economic crisis facing the entire world, the supply of jobs in the field and especially in management, fell sharply. Hotel staff is the image of an organization, thus requiring a certain prestige from its standard defining the policy and organizational culture of the company. In a service industry, the most important ingredient of the product is the man. Human resources are in direct contact with the customer and are regarded as being involved in achieving the organization's objectives.

Travel services are presented as a set of activities which aim to satisfy all the needs of tourists during the moving in this connection. By nature, travel service must provide for the recovery of working capacity, fun and educational at the same time spending leisure time; he also shall be so designed that, following the tourist consumption, the individual to acquire extra information, knowledge, skills even us.

In the contemporary period, there is an ongoing process content enrichment benefit tourism with new types of activities - specific processes and Romanian tourism - as an expression of responsiveness and adaptability of tourism to changes in the structure of consumption needs, the growing role of training and education people. Development and quality of tourism services are dependent primarily on the existence of adequate technical infrastructure, with adequate facilities, offering tourists ideal conditions to fulfill, as applicable, and other functions. Secondly tourism services are influenced by staffing capacity accommodation and catering bases for treatment and recreation, skill level of the work, the organization of work in tourism units.

In this context the insufficiency of the accommodation and catering sectors, equipping them properly, mismatch between comfort level and discerning travelers, as the small number of workers or their poor preparation, adversely affect quality of tourism services and through their dimensions tourist traffic and the possibilities for exploiting heritage.

## 2. Theoretical aspects of integration and orientation of new employees

In corporate terms, the ultimate goal of professional development is to improve employee performance and thereby the entire organization. Employees continuing education as a means by which to self-improvement, to improve prospects for career advancement. From this point of view, training is driven both by the organization and its employees. Since the emergence of human resource management has significantly increased the importance of staff development defined as "a strategic approach to investment in human capital, based on other human resources processes to identify existing talent and potential required to meet the future needs of the organization" (Currie, 2009, p.198). Senior managers do not assign training rarely priority status of the organization and therefore not willing to allocate significant resources.

This attitude has changed now that modern organizations providing resources training programs and professional training accessible to all specialty departments. Typically, specialists of chamber staff have a longer-term vision on the career development of employees and entire organizations to operative managers. But the best informed about the technical aspects of the personnel are managers who can decide when subordinates require upgrading skills or retraining.

Thus, in the view of Professor A. Rotaru are three components of the preparation phase: determining training needs, implementation of training and evaluation (Rotaru and Prodan, 2006, p.149). Petrovici in his approach, methodology training includes five phases: identifying the need for training plan development and training and staff development, conducting training programs, control programs and evaluating training programs (Petrovici, 2007, p.129). Integration is the work of human resource management that ensures the assimilation of new features in the socio-professional employees and their adaptation to the culture of the group to which they belong (Manolescu *et al*, 2004, p.211). Integration of employees aims to facilitate faster integration into the organization. This includes the employment of personnel which consists of a set of processes to award actual people selected stations, including preparation of all necessary formalities.

Training is an essential component of systems work high performance because, in the opinion of a renowned American expert, these systems rely on practical knowledge and initiative of employee value to identify and solve problems, to initiate changes in working methods to assume greater responsibility for the quality (Pfeffer, 2012, p.101). In agreement with the author, we appreciate all require a motivated and qualified workforce that has the knowledge and ability to perform the required tasks. The hotel organizations is fulfilled only part of the foregoing statement, meaning that staff is qualified, specialized training and knowledge verification is done annually, but lacks greatly in motivation managerial involvement through a proper system of rewards.

The integration of new employees is not perceived by all HR managers as a necessity. The main purposes it is used are:

- Cost reduction. Integration and proper orientation of employees reduces the time of admission to post and contribute to the costs associated with preparing them.
- Reducing anxiety. Any employee, put in a new situation, strange will become anxious, which may hinder its ability to learn. Proper orientation helps to reduce anxiety resulting from the confrontation with unknown situations and offers models of behavior, thus reducing employee stress.
- Reduce the fluctuation of employees. Fluctuations in employment increased by as employees feel unimportant/value, or are in the position where they cannot fulfill their duties. Integration prove that the organization values the employee and helps provide the tools needed to progress.

New employee orientation and integration is the process by which an employee is helped to adapt to the new job and his work thus be easier to reach. In line with a skilled we believe that professional integration is the process of adaptation of new employees with conditions characteristic of the activity of employment, symbolizing a social process extremely important, with considerable consequences on the performance of the employment of personnel and the satisfaction thereof (Pânișoară, 2012, p.56). And professional integration also requires an atmosphere of security, privacy and coming future job. The new employee will have confidence in his ability to perform activities of the job. Tourism service providers know that the first impression is everything for them. This is true not only for customers but also employees. HR professionals must know them so. A negative first impression slows development period for new employees and

to achieve desired productivity.

### **3. The integration of new employees in the reception Hotel Dali Constanta**

Only entered the tourist landscape of Constanta, Hotel Dali is built in postmodern style and is characterized by impeccable design, offering excellent quality in a subtle atmosphere of intimacy and grandeur. The elegant decors, open spaces and natural kindness greets you at the entrance with generous hospitality. The hotel is located in the lawn of the Black Sea in the vicinity of Constance Dramatic Theater, Mircea cel Bătrân National College, House of Marriage and Financial Administration and Treasury Constanta Municipality, with the perspective Modern beach and port Tomis.

Staff at Dali Hotel, must live up to a certain quality because the customer is expected to be offered the same services to the same standard of quality in all possible situations. Hence the need for integration, orientation and training of its employees, a process which I will present next. The landlord is always eye and ear hotel receiving all positive and negative comments. Booking requests, questions and complaints about the hotel are all part of the job of receptionist. If you want to know what customers think about hotel, ask the receptionist. The landlord is the person you address customer questions. During his stay in the hotel, the receptionist direct customer calls to solve problems, and all accompanying receptionist departure. The receptionists are ready and willing to provide high quality services. Receptionists, as key elements of the hotel to meet customer needs and wishes, needs to have a certain attitude and behavior, these as a political organization they belong.

Reception integration of the new employee in Dali Hotel Constanta involves two stages: preparation and evaluation. Chief landlord is responsible for the professional integration of the employee. Before starting training / instruction is available to the employee a "Manual reception" it FIDELIO including procedures, CLOCK (hotel management software) to be known for more efficient deployment under Front Office operations (reception). The components of this manual refers to the processes of booking, registration of arrivals and departures (check-in, check-out), foreign exchange and cash.

The entire front desk staff needs to have an appropriate professional behavior, perceived as a manifestation of politeness. By knowing in detail the entire meal, by his attitude, each worker will be able to recommend the customer benefits of the hotel or to greet him before making the customer, to listen and to stay available, making it to feel good and winning her confidence.

The main rules of professional conduct covers: hello, physical posture and clothing, communication ethics, including the telephone gesture. In this sense they can be formulated and laid down precise rules. Using mimic, gestures and body language of particular importance. After studying theoretical data new employee takes part in a training seminar which relates to fair and efficient use of the computer and software FIDELIO, CLOCK and customer behavior towards (outfit). After completing training, the new employee is subject to evaluation by the chief clerk. On the first working day of the new employee, colleges are required to contribute to the smooth integration to the group as Dali hotel standards require special respect to clients and colleagues, and team spirit must always be present.

### **4. Guide to good practice on the integration of new employees**

Many works in human resources management recommended us to treat them as new employees, whether recent graduates or people who already have some experience organizational. That by virtue of the new environment requires equally unique challenges, which both categories must cope better with the help of those in charge of orientation and organizational integration of new employees. Up to a point, this approach is correct and useful because it forces us to treat them with the same attention to all drawing attention to the prejudice of those who had the opportunity to accumulate some previous experience.

Since the arrival of the new employee, the manager should behave with him so that he can feel that the staff and the organization belonging and that is important for achieving its objectives. This can be achieved only if the new employee must be presented tasks, responsibilities and clear

objectives that will be assigned (Micu, Stănciulescu, 2012, p. 159). The new employee will soon feel the need to be useful and to showcase what he knows.

The most important shortcomings aimed at integration, orientation and training of new employees Dali Hotel reception problems noticed in daily observations and research results in the field, are the following:

- Formalize the integration of new employees;
- Are not adapted to the hotel and its location in the territory;
- Contain no ethical issues with staff and customer behavior;
- Does not refer to an immediate familiarity with the written instruments of the hotel.

Receiving new employees must be designed so that they feel welcome and accepted collectively. Head of group members collectively should announce the arrival of the new employee to be ready to accept it. A warm attentive and courteous atmosphere removes mistrust that can cause a cold and indifferent reception. Receiving is the first impression that creates new collective income; it has on its impact as much higher than we can imagine. A good reception can be a great step in the process of integrating the new employee; so participating team members to successful integration, forming also the primary sources for obtaining preliminary information, as implied by a renowned specialist (Alexander, 2012 p.21). At the first meeting and the first handshake can transmit the unconscious messages of domination, submission or draw. The message of dominance and taking control appears outstretched hand palm down and hand out palm up forward obedience and trust. Moreover, following gestures a person can understand if it is a person expansive, who likes to dominate and who would not accept competition or if that person lacks self-confidence, irritated, very dynamic or limpness. The line body, shoulders, neck also have their share of importance. The way we bow to distance ourselves from the partner or transmit availability or carelessness. Column line and the shoulder line, as standing or sitting can humiliate or dominate, create an equality or show dominance or submission.

Following information that we have obtained in connection with the staff of the Hotel Dali Constanta, we proposed a guide of good practices that should be reflected in employees' behavior towards clients and posed in Table 1:

*Table no. 1 Guide to good practice for the department Reception in Hotel Dali*

<b>Employee behavior to the customer</b>	<p>When the employee goes through the hotel should remember:</p> <ul style="list-style-type: none"> <li>- "Head up" ...</li> <li>- "Smile" ...</li> <li>- 10 steps - establish visual contact with the person moving towards it;</li> <li>- 5 steps - to address;</li> <li>- To greet each guest with a smile;</li> </ul> <p>When welcomes a guest, you should use the name of his family whenever possible;</p> <p>On departure, the customer must settle for a warm farewell with a smile;</p> <p>The guest must not be interrupted again, this is why the employee is there;</p> <p>The way in which the employee is expressed is very important. It must use a vocabulary care;</p> <p>The employee must anticipate customer desires and must always distinguish between their needs and those of the client;</p> <p>The employee must interrupt the conversation where he is employed and pay attention to the customer, giving priority to lifts, door entry, restaurants etc .;</p> <p>The employee must not point fingers; whenever possible, the customer has led to the desired location;</p> <p>Professionalism phone is essential for a good first impression. If the position requires the employee to communicate with the client by phone, it needs to be involved to provide quality services;</p> <p>All calls must be answered before the phone ring three times;</p> <p>The employee must avoid undue familiarity to the customer;</p> <p>The employee must observe body language client. It is relaxed? The arms are crossed? They seem to be in a hurry/tired?</p> <p>When the employee receives a complaint - becomes its owner; and it must act immediately to solve, and to ensure that the customer was satisfied.</p>
<b>Employee behavior</b>	Each employee must meet colleagues at any time with a smile and be friendly;

<b>towards colleagues</b>	Each employee must comply with colleagues property; Each employee must recognize the importance of each job schoolmates; Encourage teamwork and leave your personal problems at home.
<b>Employee behavior towards unity in working</b>	The employee must not forget that: his job to ask the right attitude; The employee must not use the facilities for the customer: mobile etc .; The employee must know more about the services of the hotel that are working hours that the restaurant, swimming pool, how far away are local attractions, etc; The employee must make saving water and electricity; The employee must meet and maintain the hotel property and equipment; Each employee is a seller; Always employee must first recommend the hotel food and drink and then other outdoor facilities; The responsibility of every employee is to maintain cleanliness in the hotel, both in front and behind the building; A uniform clean, ironed, appropriate footwear and a badge correctly is essential and can create a very good first impression about both employee and unity.
<b>Employee behavior to superiors</b>	Each time you need help, or need to solve a problem more delicate employee should not hesitate to seek help from senior heads; The director should be notified as soon as an incident or an accident can escalate into a possible accident.

Source: Author

In our opinion, it is generally better, as a first step, the new employee to give him and others a time of adjustment, at least one month, during which they can deposit items, rejection, which can be observed power relations, formal and informal, the newcomer finds a place in a much more complex structure than what you see at first glance. It is absolutely normal reaction of rejection or suspicion of the team at the beginning, before a change, especially from people directly affected by the newcomer. This reaction of rejection can be charged directly or can be more subtle indifference manifested by marginalization by willful or exclusion from certain group activities.

The entire front desk staff needs to have an appropriate professional behavior, perceived as a manifestation of politeness. By knowing in detail the entire meal, by his attitude, each worker will be able to recommend the customer benefits of the hotel or to greet him before making the customer, to listen and to stay available, making it to feel good and winning her confidence.

## 5. Conclusion

In a service industry, the most important ingredient of the product is the man. Human resources are in direct contact with the customer and are regarded as being involved in achieving the organization's objectives. People's quality determines the quality of services we provide to customers and thus their success in the market is an undeniable fact that the organization's performance depends entirely on staff. Without people in the tourism industry cannot exist an organization and an intentional activity. Behind any activity or document are men. So staff tourism is the most important feature of the tourism industry. In this respect requires a more thorough study of the human resources and their management. Hospitality industry was faced with the problem of attracting and retaining high-quality staff. The reasons were the inability to recruit and retain employees operatives and supervisors of the unit, including hours, payment and contingent nature of the labor market. The performance levels of employment are determined by the ability of staff but also of their reasoning power. We should pay attention to the nature of motivation and job satisfaction if desired by staff to perform their duties to the best of their abilities capacity. A special place in the effective management of human resources would have to deal with the integration of new employees into the organization as a prerequisite in achieving the organization's objectives and improve performance.

In conclusion, it should be noted that running a business hotel customer care begins with caring staff. Employees are the most important ambassadors of tourism organizations and should be treated as their most important customers.

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# Differences of Organizational Culture between Small and Large Enterprises

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## Abstract

*This research paper analyses the organizational culture of small enterprises and large enterprises, and highlights the common elements and the main differences. The results of the study show significant differences in terms of organizational culture between the two types of organizations. Employees working in small size enterprises are oriented towards innovation, whereas the ones working in large enterprises are more aware of social responsibility. In addition, small organizations are perceived to have a more supportive organizational culture than large enterprises. Furthermore, the study reveals differences in management and leadership styles when analyzing the small and large enterprises. Considering the flatter organizational structure of small enterprises, the managers have a personal relationship with the employees and they motivate them better and align their goals with the ones of the enterprise. In large organizations, the managers need to have a tighter control, as more procedures have to be followed.*

**Key words:** organizational culture; small enterprises; large enterprises;

**J.E.L. classification:** M14;

## 1. Introduction

The recent scientific literature highlights the importance of organizational culture, but very little research has been conducted regarding the differences in organizational culture between small enterprises on one hand, and medium and large enterprises on the other hand.

Schein (1985, p. 225) showed that culture is a powerful and stable force in organizations and its implications on organizational performance and long-term effectiveness. In addition, organizational culture can be a great source of competitive advantage, if the company focuses on continuous development of the employees and on creating a learning organization (Barney, 1996, p. 656). In this manner, the company will adapt much quicker to the changes of the business environment and will have the capacity to innovate. As numerous scholars have shown, a strongly cohesive culture will increase the productivity and the increase the commitment of the employees. In addition, by implementing the best management practices, the employee morale and their attitude towards work can be improved to a significant extent. However, there are few studies that study the similarities and differences of organizational culture between the small and large enterprises.

Organizational culture has many functions, one of the most important being the fact that it creates distinction between one organization and the others. Furthermore, it creates a sense of identity for organization's members. Organizational culture also enhances the commitment of the employees to something broader than their own self-interest, holds the organization together by delivering standards for what employees should do and say, and it is a mechanism that shapes employees' attitudes and behavior.

While today more and more organizations decentralize, the role of culture is even more important, but in the same time establishing a strong culture has become difficult. In other words, when formal authority is reduced, culture's shared meaning guides every member in the same direction. Nevertheless, employees that work in teams may show more commitment to their team

values rather than to the values of the team as a whole. Establishing a common set of value is very difficult especially in virtual organizations, where face-to-face contact is not possible, so a strong leader that communicates frequently about common goals is essential for these innovative organizations.

Nowadays, companies with strong cultures offer a job or make promotions by taking into account the individual-organization fit. This concept reflects whether a person's attitudes and behavior are compatible with the culture of the organization, as the management wants to maintain their image and the level of effectiveness, while maintaining a positive climate.

## **2. Literature analysis**

Generally speaking, there are many definitions regarding the organizational culture. On one hand, Schein (1985) defines culture in terms of artifacts, espoused values and basic assumption. The most visible layer of culture is represented by the artifacts, while the core of organizational culture and the most intangible layer is represented by the espoused values. Basically, Schein shows that organizational culture sets the norms that described which behaviors are accepted and which aren't allowed within the organization. In 2004, Schein offers the following definition for organizational culture “the set of shared, taken for granted and implicit assumptions that a group holds and that determine how it perceives and reacts to its various environments”. According to this definition, organizational culture has three main characteristics, as follows: on one hand, organizational culture is passed down to new members through socialization, behavior at work is strongly influenced by the culture of the corporation and that organizational culture operates at different levels (Dorothy, 2008).

Christensen and Gordon (1999, p. 397) define organizational culture as “a set of beliefs, assumptions and values that are shared by a majority of those in an organization”. If it were to sum everything up, the organizational culture really represents the essence an organization works. Taking into account that scholars have shown that performance-enhancing strategies (total quality management, downsizing, outsourcing or reengineering) are dependent on cultural change. Therefore, the need to accurately assess the culture of an organization is really a condition for increasing the overall performance. Cameron and Quinn (1999) note that the organizational assessment is an essential step before implementing the performance management practices, as the organization has to change while maintaining stability in the exterior environment.

Although many studies have been done regarding the corporate culture in large organizations, small organizations haven't been studied to the same extent. One of the main reasons is that most scholars assume that the aspects that describe the large organizations are also applicable to the small and medium enterprises. However, other researchers consider that small enterprises function differently for many points of view. For example, (Mau, Lan and Chan, 2001, p. 123) claim that the main differences when comparing small to large enterprises are related to the organizational structures, leadership styles and the manner in which they define their competitive strategies and responses.

However, assessing the organizational culture of small enterprises is a sensitive topic, as in order to improve the organizational effectiveness, one need to assess the relevant dimensions of the culture. Without knowing these dimensions, cultural change cannot be accurately and efficiently implemented. In turn, without adapting the culture to the dynamic of the business environment, most small companies fail to survive on the long term.

According to EU legislation, a small enterprise is a company that has less than 50 employees and its annual turnover and total assets are no greater than 10 million euro. In addition, a medium enterprise must have no more than 250 employees, its annual turnover should be less than 50 million euro and its total assets should not exceed 43 million euro. In addition, EU legislation defines microenterprises as companies that have less than 10 employees and annual turnover less than 2 million euro.

However, in other countries the upper limit of employees varies extensively. Therefore, in USA the upper limit to define small enterprises is 100 employees. In the current study, the small enterprises had less than 50 employees and medium enterprises had less than 250 employees and large organizations had more than 250 employees.



For any economy, small enterprises are really important as they create employment, they innovate and on the long-term they sustain the economical growth. However, as small enterprises grow, they face many challenges, especially in term of organizational culture. Once the number of employees exceeds a certain limit, usually when they enter the medium-sized range, the climate of work deteriorates, the uncertainty increases, as well as the red tape within the organization. On the other hand, the level of trust between the members of the organization decreases, once the number of employees is larger than 250. (Alvesson, 2002).

On the other hand, small and medium-sized enterprises have several advantages as compared to large organizations. Therefore, the enterprises have better flexibility and decision-making process is a lot quicker, so that they can respond better to challenges and opportunities offered by the business environment. In opposition, the large enterprises score low at bureaucracy and to response to market threats and opportunities.

Small and medium-sized enterprises don't have a formal hierarchy in most of the cases, so the employees rely more and collaborate on a personal level. Taking into account the informal, flatter and more centralized structures of small enterprises, implementing changes to the culture of the organization may be a quicker and more effective process. In addition, taking into account the reduced number of employees, the managers have the opportunity to develop a close and direct relationship with the employees. In this manner, the manager can reinforce the organizational culture on the long term.

Over time there have been many empirical studies about the links between culture and organizational performance. Considering the academic acceptance of this concept, without much inherent skepticism or divergent opinions, organizational culture is very important in the current context. However, this doesn't mean researchers came to a consensus regarding the definition and scope of the concept. On the contrary, there is a very wide range of views on the essence and relevance of organizational culture. First, there are some researchers who believe that studying culture as a unitary concept reduces its usefulness as an analytical tool (Ogbonna and Harris, 2000, p. 766). The second divergence of views is the fact that there can be no equal sign between this concept and the power and the political climate (Denison, 2000; Schein, 1985). Thirdly, there are many opinions in terms of changing organizational culture and ease the process

The popularity of this concept is largely due to the belief that certain organizational cultures generate superior financial performance. Many researchers and people directly involved in the operational processes of companies claim that the performance of an organization depends on the extent to which cultural values are shared widely within the company (Denison, 1990).

In the case of IT industry, some studies have shown that small enterprises have a competitive advantage over large organization. Therefore, Engler (1999) shows that the employees working for small and medium enterprises have a better productivity and the level of red tape is much reduced. However, they don't benefit from the same resources as a in the case of large enterprises. In addition, the personnel don't have the same experience and the number of specialists is reduced, as compared to large organizations. In addition, the management teams are smaller and don't have enough experience and financial resources to focus on innovation, nor the economies of scale to reduce costs.

### **3. Research methodology**

The main aim of the present scientific paper concerns the analysis of difference in terms of organizational culture between the small enterprises and the large enterprises. This research is based on non-probabilistic sampling, more specifically on rational theoretical guided sampling. I have selected employees working in IT field from Bucharest and used primary data collection, such as questionnaire and face-to-face interviewing.

The studied population is represented by personnel from privately-own IT companies located in Bucharest. As far as the application of the questionnaire is concerned, I used a mixed strategy. On one hand, I sent questionnaires by email to 82 persons working in the IT field, of which only 38 have been returned, 37 being valid. On the other hand, I went to the Chamber of Commerce and I identified several companies which are competing in IT market. I managed to fill in another 44 questionnaires. All the questionnaires were checked for validity, before numbering and loading

them in a SPSS 17, data processing software. The graphs and the frequency were generating using this software. Taking into account the objectives of the research and the nature of the variables, the main analysis used were frequencies, Chi Square Test and the Correlation Coefficient.

Out of the 81 persons that filled the questionnaires and whose answers were valid, 37 persons worked in small enterprises, 12 in medium-sized enterprises and 35 in large organizations. Out of the 81 respondents, 30% finished post graduate studies (master or Phd), with a slightly better proportion in the large organizations (40% compared to 35%). In addition, a larger proportion of the employees from small enterprises technical qualification, as compared to large enterprises (37% compared to only 17%). Moreover, 42% of the employees from small enterprises were working in the company for more than ten years, as compared to only 27% in the case of large enterprises.

The hypothesis (H1) of this study is that the small enterprises cultures are more supportive, competitive and have a greater focus on rewards.

#### **4. The results of the research**

After analyzing the data collected from the respondents, there were noticed significant differences in terms of organizational culture between the persons working in the small enterprises and employees from large organizations. First of all, at the most visible level of culture (artifacts) the study revealed significant differences between the two groups.

When testing the links between the type of the organization and the perception of the employees about the equipment, the layout of the workplace and the climate, it was noticed a relationship of high intensity (Correlation coefficient=0.785, Sig.=0.01) and statistically valid (Chi-Square statistics revealed that none of the expected frequencies are less than 5, so these results are statistically valid). Therefore, 83% of the persons working in small enterprises responded that they are satisfied with work climate, as compared to only 61% of the persons working in large enterprises. However, the study shows a medium correlation between the number of years spent within the organization and the perception regarding the perception of the climate at the workplace (Correlation coefficient=0.55, Sig.=0.01). On the other hand, the place in the hierarchy has a small correlation to their perception regarding the artifacts (Correlation coefficient=0.12, Sig.=0.05). Therefore, it is safe to say that the position within the organization has little influence on the work climate satisfaction, while the number of years spent within the company has a positive influence. The influence can be explained by the fact that over time employees get accustomed with the facilities and equipment offered and they becomes part of a routine. In addition, dues to the lower number of employees, small enterprises score better, as the interpersonal relationships are more close and the organizational structure more flat, thus creating a better work environment.

After analyzing the primary data, the study revealed that there are no significant differences between the size of the organization and how clear the mission, the vision and the values of the companies are to the employees (Correlation coefficient=0.12, Sig=0.78). In addition, there are significant differences in the perception regarding how well the organization fulfills its mission. While, 92% of the employees working in small enterprises consider that the organization attains their mission, only 78% of the employees from large enterprises have the same perception.

92% of the employees from small enterprises chose Performance Orientation as a characteristic of their culture, as compared to 65% in the case of the large enterprises (Correlation coefficient=0.78, Sig=0.05). In addition, 85% of the respondents working in small enterprises chose Emphasis on Rewards as a characteristic of their culture, as compared to 75% in the case of large enterprises (Correlation coefficient=0.76, Sig=0.12), thus showing a strong positive correlation between the dependent and independent variables. In addition, 72% of the employees from small companies chose Innovation as a dimension of their culture, as compared to 64% in the case of large enterprises (Correlation coefficient=0.71, Sig=0.22). On the other hand, 93% of the employees working in large enterprises choose Social Responsibility as compared to only 65% of the members of small enterprises (Correlation coefficient=0.79, Sig=0.1).

After studying the questions regarding the leadership style, the study revealed that there are significant differences between the two study groups. Therefore, after analyzing the mean of the variables, the results show that the management style in small enterprises is diplomatic and transformational. In these organizations, the managers enhance the motivation, morale and

performance of the employees by fostering the employees' sense of identity with the organization. In addition, the manager is seen as a role model that inspires the members of the organization. The members of these enterprises take greater responsibilities. In addition, the managers in small enterprises understand the weaknesses and the strengths of the employees and help them align their goals and tasks with the company's objectives and thus enhance performance. After computing the mean of the variable for the large companies, the result still qualifies them for diplomatic and transformational management, although they score lower in this regard as compared to small companies. Because of the complex organizational structures, in large organizations, managers focus more on supervision and group performance. In addition, these managers don't adapt that quickly to changes in the business environment and want to keep things the same. This leadership style has the advantage of giving the manager a better control on a specific project, especially when certain procedures need to be followed. Both types of organizations, irrespective of their size allow the access to relevant information and value the opinions of the employees, although the percentage is better for the small enterprises (84% compared to 68% in the case of the large enterprises).

The data analysis showed an average-intensity relationship (Correlation coefficient=0.312, Sig.=0.01), between the two groups when it comes to the perception regarding how supportive the management is. The results indicated that small companies are perceived to be more supportive than large organizations. Therefore, the employees will involve more in their tasks. One possible explanation could be that in small organizations the employees trust each other more and feel their opinions matter when decisions are taken.

There is a weak relationship between the perception regarding the job security and the size of the organization (Correlation coefficient=0.12, Sig.=0.41, Chi-Square statistics revealed that none of the expected frequencies are less than 5). Therefore, 72% of the respondents from the small enterprises consider their jobs are secure, as compared to 84.8% of the employees from large enterprises.

Moreover, 73% of employees from small enterprises are satisfied with the level of their payment, as compared to 82% as compared to employees from large enterprises. The results obtained are consistent with previous studies, as Brown et al (1990) showed that workers from large enterprises have better financial rewards, enjoy better job security and have better wages as compared to employees from similar position in small enterprises.

## 5. Conclusions

This study studies the differences in terms of cultural dimensions between the small and medium sized enterprises, on one hand, and the large enterprises, on the other hand. The results of this paper show that small enterprises are perceived to be more innovative, performance oriented and supportive than large enterprises. On the other hand, the enterprises having more than 500 employees are perceived to be more socially responsible. Both small and large enterprises are oriented to innovation, but this result can be explained through the nature of the businesses that were studied (IT). One of the most important findings of this study is that it clearly shows small enterprises can be successful even if they do not imitate the large enterprises. Large enterprises have the advantage of higher resources, better economies of scale and more stable organizational culture, while small enterprises can adapt quicker to market shifts. In addition, the work climate in small enterprises is perceived to be better, as the communication between the manager and the employees is more personal and direct.

Last but not least, large enterprises could use these findings to gain a better reaction to business environment changes. Thus, large business could create small business units, in order to combine the advantages given by the economies of scale with the advantages given by a flatter and smaller organizational structure.

The limitations of this research are about the number of respondents and their location, as the primary data were collected from employees working in several IT companies located in Bucharest. I intend to extend my future researches to investigate the link between performance management and organizational culture, in other regions of Romania.

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## The Significance of Resources Purchases over the Business's Competitiveness

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### Abstract

*The company's success is based on its competitive advantages relative to competition, acquiring and maintaining them becoming priorities for management of the organization, so by building sustainable entity to be able to pursue the objectives set. An important role in sustaining continuous activity, at full capacity, with a higher profit of the company it has the supply of material resources that provide the materials necessary for production consumption in volume, structure and corresponding deadlines. All the elements of cost associated to insurance and resource management necessary for production are a key factor in generating value final product and diminish them by exercising control over specific costs, based on a careful management, adapted to the market economy, it becomes a source of profit growth.*

**Key words:** competitiveness, supply, management

**J.E.L. classification:** M19

### 1. Introduction

Competitiveness is the characteristic of the company to face competition, representing a key factor in its success on the competitive market. In a market economy, the companies compete with each other to increase their market share and the competition stimulates and rewards companies which prove their efficiency, responding rapidly and flexibly to changes in the market. Trade competitiveness, an important part of the competitiveness of a company, may be evaluated according to the following aspects: turnover, commercial reputation of the company and / or the product, brand image, customer loyalty, market share. The concept is relative, being the result of a comparative analysis performed over a given period of time, as a one time measurement might be insufficient. It involves maintaining or increasing performance, lasting success, of expressing and maintaining perceptions of safety, efficiency, quality, versatility, superior products at optimum costs. Competitiveness is measured by relating to indicators such as: profit and profit rate, the threshold of profitability, productivity, efficiency ratio of inventories etc. and expresses the ability to meet consumer preferences in terms of economic efficiency.

Competitiveness is, as a concept and expression, inextricably linked to competition, the competitive environment being the place of manifestation, but also the catalyst in the companies' fight for supremacy in the market. The factors involved in acquiring competitiveness are: profitability as eloquent indicator of efficiency, productivity of the internal processes as an absolutely necessary step, improving the quality of the product while decreasing the cost factor that determines the profit, the expansion of the capacity of production and market expansion, as well as the adaptation of the products to the changing requirements of the customers.

Most authors position "the quality / product performance first among the key factors of success in the company's effort to position itself on the market" (Baily, et. al. 2004, p.53), having also the alternative of cost orientation, with the primary objective of lowering costs. However, the product

may be considered truly competitive if it were of good quality and provides adequate performance for an acceptable price. The strategy focused on quality ensures long-term competitiveness and it leads to an improved company reputation, also, the market development for the product and, on the long term, towards reduced costs.

## **2. Competitiveness and the role of resources purchases**

The ability to sell at prices lower or equal to those of other suppliers, for the required quality, represents a competitive advantage. The competitive advantage takes two forms: the cost advantage, aiming to achieve the lowest cost per industry, usually by respecting some standards, and differentiation, obtaining a unique product, which usually generates increased costs.

The company's success relies on its competitive advantage relative to competition, acquiring it and maintaining it becoming a priority for the management of the company so that, through a sustainable construction, the entity may be able to pursue its set objectives.

Another company objective, especially for the competitive companies, must be sustainability, aspect which, passing beyond cost and efficiency, ensures a long-term competitiveness. To develop in terms of sustainability, the company must consider some strategies (Fundătură *et al.*, 2005, p.6):

- the management of sustainability should cover all departments. Among them, the management of resource sustainability involves having an appropriate attitude aimed at preventing the wastage of water, energy, raw materials;
- the sustainable innovation and adaptation of the entire system by adopting the technical progress and know-how. The measures taken in this direction may be reactive or proactive and will inevitably lead to reducing consumption;
- the eco-efficiency pursues meeting the goals of the organization without ignoring the need to reduce the negative environmental impact;
- The sustainable competitive advantage, which may be maintained for a longer period. In this regard it must integrate sustainability as an objective, including it in the supply chain by developing relationships with partners who have on medium and long term their activities and interests oriented also throughout the spectrum of sustainability.

## **3. The Role and position of supply within the organization**

"The supply of material resources represents the activity through which the necessary materials for use in production are ensured, having the volume, structure and deadlines to support a continued activity, at full capacity, the economic unit obtaining profits as high as possible" (Cârstea, 2000). This definition delimits the coverage area but also highlights the dynamic nature of the activity.

With a range of responsibilities clearly defined at company level, the supply subsystem has a series of goals, regardless of the specific activity of the entity to which it belongs: supplying the needed goods and services, at the right place and at the right time, finding the optimal formula for efficiency in order to meet the requirements in terms of quantity - quality - place - time - price, minimizing inventory costs, costs related to storage, deterioration, obsolescence, etc., cultivating a mutually beneficial relationship with the performant suppliers, identifying and contracting alternative supply sources, maintaining the dynamic through continuous adaptation to the market characteristics and trends, managing good relationships with the other structures of the company and enforcing a management based on professionalism.

The supply activities include all necessary activities in order to ensure the material resources necessary to achieve the objective of the organization, namely the production of a sellable product in a competitive market. The supply subsystem includes the organizational elements involved in carrying out these activities. To this purpose, the subsystem must have a place in the organizational scheme of the company. Its form depends on the factors and parameters mentioned above, and may be a structure in one of the following forms of direct subordination:

- The general manager - a situation that has the advantage of supplying directly the manager of the company with valid (unaltered) information concerning the situation of stocks, consumption, supply flows. The downside is represented by the break with the structure of production, the direct

beneficiary, by the existence of intermediaries.

- The commercial director, heading the supply and sales structures - a situation which has the disadvantage of breaking from production, but which is close to the market, the real commercial situation of the company, both as recipient and as provider, in turn;

- Production manager - passive state of supply.

The supply structure may take many forms, including:

- a separate department of supply with warehouses, having the advantage that the decision and responsibility are merged, but being characterized by a low degree of flexibility;

- supply tasks incumbent to production (consumer) sections, the supply taking place with maximum efficiency, per groups of materials, each group of this type bearing responsibility for the entire process, from substantiating the request, researching the market, choosing suppliers, reception of goods, management etc. The immediate disadvantage lies in the supply and management costs. It is also necessary to mention that this form of supply is not fit for all company types;

- a combination of the two types, by setting up groups of supply: heterogeneous materials for certain sections (as recipient) or homogeneous materials for different sections (depending on the materials).

#### 4. Conclusions

The best version, in this situation, is identified in companies which tend towards open systems of organization, demonstrating flexibility and which can adapt easily to the demands of production, taking the form of new organizational structures generated by concrete needs.

The supply, according to its specificities, is considered a costs generating activity, thus making supply a determinant factor when establishing the value of the final product. "The cost of supply represents all the elements associated to the activities of insurance and the management of the resources necessary for production" (Cruceru *et al.*, 2013). By reducing these costs (tighter control of acquisition costs), the supply exceeds the "source of spending" status, likely becoming a source of profit growth. The supply cost includes: acquisition cost, transportation cost, administrative costs for placing orders, storage costs, shortage costs, other costs. The acquisition cost may be reduced by obtaining discounts based on quantity (collaborations with other purchasing companies may be established in order to purchase larger volumes) based on promotions or advance purchase (if suspected that the prices might increase), negotiating favorable payment terms, identifying and using substitutes, etc. The administrative costs (inventories, management, placing orders, reception of merchandise, control, etc.), costs of ownership (maintenance and storage of stocks - rents, depreciation, insurance, wear, administrative expenses, etc.), shortage costs (costs arising from the rupture of stock and the decrease of revenues as a result) are subject to the same rules: reducing them reduces the cost of supply which results in increased profits.

From this perspective, in the analysis of the supply appears the concept of *profit center*. "Profit Center represents the organizational link which may control both the costs (inputs) and revenues (outputs)" (Dumitru, 2005). In this regard, the supply acts as a source of savings and as a profit center by exercising control over specific costs. Explaining this phenomenon may also be achieved by applying the "principle of the lever": lowering the supply costs by a percentage determines the increase in production (by purchasing larger amounts of raw materials using the same capital) or the increase of the profit share (when the sale price is preserved). This increase is higher than the effect of a similar reduction in the other areas of activity of the company.

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# The Need To Reposition The Insurance Logistics Management In M.A.I. Units

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## Abstract

*Logistics, considered by some authors as "a science of the future, has the aim of study dimensioning and correlation optimal flow of information and goods, in order to continuously adapt the organization to the environment" and is an essential component of management entity, especially in the context propagation production concept JIT (just in time), extended to financial security. Providing specialized management and structural compatibility between M.A.I. units components and greater specialization of staff with similar tasks are achievable when the uniformity of the organization structure of the existing logistics structures subordinated M. A.I.*

**Keywords:** logistics, management, organization, repositioning

**J.E.L. classification** M19

## 1. Introduction

Management experts, B. Reece and J. O`Grady believe that "*management is the coordination of human, informational, physical and financial resources to achieve the organisation's goal*" (Nicolescu *et al.*, 1997, p.37), and according to Larousse, management is "the combination of targeting techniques, organization and business management" ( Management and Leadership User's Guide, POSDRU 2007-2013, p.12). Marry, Follet, important contributor to the development of scientific management behavioral perspective, induces the idea of *art* in the definition of concept, and Russian authors, teachers C.H. Popova and J.i. Krasnopoiasa, quoted in "Modelling and Simulation in Management: Econometric Models Used in the Management of Organizations" by Ioan Constantin Dima and Mariana Man believes that "*science of management is dealing with general management laws and also the laws of its synthetic components*".

Whether its origin is Anglo-Saxon or French, that they call *management, maitrisetechniques from qualite, upravlenietechnologicheskikhprofessov*, we consider that the definitions are restrictive, and based on the principle that has often proved its veracity (*less is more*) we can define management as a concept at the intersection of science and art along with the rules, which is to **identify the recipe to bring together the idea, with man in order to achieve the objective** .

## 2. Management Systems Of M.A.I. Units

Analyzing management system units in the Ministry of Internal Affairs we observe the peculiarities of applying the principles and functions, where, although the tasks managers require qualities, skills and competences (technical, human and conceptual) similar to those in other fields, to manage, to order, to lead, to decide, to train, to direct, to explain, to influence, to integrate, to clarify, to make known, to hone, etc., specific freedoms of other types of managers are limited by the requirements of law and internal regulations.

The importance of leadership skills for work done varies by the level of seniority that lie manager: peak (top management), middle (middle management) or operational (executive management).

Iain Mangham believes that “executive level manager`s work is represented by systems functioning maintenance in a regime of cooperation.” ( Billsberry, 1996, p.53). From this statement, we can say that all MAI units managers have operational role, which is predominantly for middle management, but even for heads of units (chief inspectors, directors, etc.) because cooperation relationships are manifested both between different structures, and between individuals, as the organization is “a product of thousands of summaries of individual behavior” ( Ibidem, p.53).

Maintaining the functioning of the entity in a regime of cooperation has as a premise the operation of each subsystem part of the entity. M.A.I. units basically have the same structure components: operational structures and support structures.

Starting from the idea that the objective is to identify the optimal formulation to bring together **the idea**, **the man** and **the work** in order to achieve the objective, we will further analyze the components:

**The idea**, in our equation is predetermined and has a definite value: citizen safety (whether the entity/unit is active in emergency management, in ensuring a social safe environment by limiting and combating crime or protecting borders);

**The man** is the element of predominant importance; he leads, he is led, is part of the operative structure or support structure. The results are visible in team activities, because “no one is able to whistle a symphony alone” (Ibidem, p.227), and the manager must know the art of making things with the hands of those he leads...to have the role of conductor. Also, employee evaluation result, its label (competent/incompetent) represents the manager`s ability or inability to establish a system of processes, techniques or labor rewards his employees.

**Working** as a container metaphor illustrates the entire concept of providing material resources necessary to achieve the entity`s objective and belongs to the support – logistics structures.

Logistics is a concept to be widely used, working with concepts such as material and technical basis, transport, equipment, consumption of resources. The dictionary describes the term as being of French origin, although the literature also leads us to the Greek LOGISTIKOS (good at calculations).

In economics, logistics “began to be perceived increasingly as a science of the future, having as object of study the sizing and correlation of the optimal flows of information and goods, in order to continuously adapt the company to the environment”. (Crueru *et al.*, 2013). Thus, it has become an essential component of the entity`s management, especially in the context of production concept JIT (just In time) propagation, also extended to financial security.

According to the "Dictionary of management" (Deacon Coresi Publishing, Bucharest, 1992), coordinated by prof. univ. dr. Dumitru Fundătura, the definition of logistic supply was envisaged, “an interpretation that military actions have given this move, considering logistics as a division of military art” (Fundătura *et al.*, 2005, p.6). and emphasizing the importance of ensuring the food, equipment, armament and ammunition and supply lines of attack or defense points. The authors cite military literature in the first half of the nineteenth century that defines logistics as "the sum of principles, methods and techniques positive, almost mathematical, that along with the strategy and tactics, ensure the success of military actions". The purpose of logistics is defined as "providing livelihood, troops march and rest in campaign in the best conditions of order and dignity. [...] Although logistics is a science of detail, its importance is paramount because everything must be studied and calculated with precision [...] otherwise, it is understandable that disorder, fatigue troops, delaying actions surprise, incomplete execution of commands combinations can have disastrous effects on the results of battles. " (Ibidem, p.6).

### 3. Logistics - support function in achieving the organization's mission

"Logistic management" (Publisher SITECH, Craiova, 2005), a work developed by Marin Dumitru, begins with the sentence: "Logistics is the function support in achieving the organization's mission" and describes over more than 400 pages, the assertion logistics - both developments in economics and development as practical activity - up to the current position "indisputable management tool" in a separate chapter addressing "military logistics, organizational model for entities that manage large human communities".

"Logistics was appreciated by Jomini (Gen. Antoine Henri, Baron Jomini, author of *Precise de l'art guerre*, Paris, 1838) as the *SCIENCE to prepare or to enforce the other two*, the strategy and tactics. Therefore, after Jomini, logistics enter into higher ranks liability ", the main argument being brought to its allegation is the Napoleon`s example (Cruceu *et al.*, 2013) who took great care to organizational details.

Military origins of the concept are also undeniable, and this emphasizes the importance of logistics (complex non-combat activities, especially related to the supply, transport, construction and medical assistance for the wounded and sick).

The literature establishes the theoretical foundations of management: functions, principles, management system used, methods and techniques.

Analyzing these elements through the applicability into the M.A.I. system through the specific actions of the logistics activities in units, we identify the use of **management functions**, as follows:

The forecast / planning - contribute through periodic reviews to determine the best management objectives and ways to achieve them. The relevant document related to this activity for material insurance side is the *Material and Technical Procurement and Supply Program*;

Organizing - determines work processes, steps and personnel involved in the work needed to achieve the objectives. Organization is reflected in plans with main activities proposed to be met yearly / half-yearly / quarterly / monthly plans, technical and material supply, plans to carry out repair and maintenance activities, staff training plans, various formalized procedures etc .;

Coordination - is to harmonize the decisions with the actions taken, having a particularly important role in collaboration both vertically (with specialists from the upper echelon, but also with the staff of the subordinate structures) and horizontally, with their counterparts in the other MAI structures of the same weapons (at national level) or within other M.A.I. weapons (local or national);

Training - motivation - is constant throughout the course of activities by staff with leadership (based on experience and personal training) for the purpose of influencing the action of others, for achieving the set objectives. This is in order to formulate simple, clear, not exceeding their competence and ability subordinates execution. For motivation to provision it is necessary to know the complex needs and expectations of staff and establishing methods to drive towards achieving the desired performance;

Control - evaluation is performed in different forms: hierarchical control, management control, preventive financial control, internal audit, cross checking of records, reports on main conclusions from the checks, action plans or recommendations that are to be implemented to correct business or optimization etc.

**Management principles** reflected in the organization and logistics activities are:

1. The principle of participatory management - resulted in their participation in the act of leading specialists in logistics;
2. The principle of unity of management is achieved through a relationship of subordination within the institution (manager - coordinator - specialist - worker);
3. The principle of delegation of authority is delegated powers strictly applied by the occupants of specialized managerial positions subordinate organization's leader;
4. The principle of effectiveness (objectives) and the efficacy (with minimum resource consumption) is reflected in the logistics business by setting rules for judicious consumption of material resources, financial, and personnel,
5. The principle of division of labor and specialization is reflected in the organizational structures of logistics by the existence of specialized departments under the direction of a head structure.

**The management system** used in M.A.I. units is *the management by budgets* and thus ensured a clear and fair evidence, forecasting, control and assess as an overall effort.

Among the **specific management methods and techniques** are used: diagnosis using mixed teams of control or auditing, meeting and delegation.

Although at the level of M.A.I. there are not homogeneous structures and tasks vary from weapon to weapon, organization, while not identical, is similar. In parallel with the operational side

of each structure there is the non-operational side, the support, in which the predominant role belongs to logistics.

Although it has been shown that its role is essential to system functionality during the last years, organizing the logistics has undergone successive changes, almost all justified by reducing the number of personnel, aimed at identifying an optimal scheme of work. The result reached after multiple transformations is that weapons in M.A.I. structure have different forms of logistics organization, although activity is governed by common legislation and is identical. Organizational differences are of form, not substance, as follows:

*Table no. 1 The situation on the structures M.A.I.*

<b>Units / structures subordinated to MAI</b>	<b>Membership structure logistics</b>	<b>Subordination logistics</b>	<b>Observations</b>
Inspectorate For Emergencies	Logistics Service Technical Intendance Cultural Patrimony Administration Acquisitions IT & C office	Head  Head office	IT&C is assimilated in operative structure *
Romanian Police	Logistics Service Technical Intendance Cultural Patrimony Administration Acquisitions IT&C service	Head  Head office	IT&C is assimilated in operative structure *
Romanian Gendarmerie	Logistics Service Technical Intendance Cultural Patrimony Administration Acquisitions IT&C service	Deputy Superintendent Head  Specialist officer Head	
Border Police / CoastGuard	Logistics Service Technical Intendance Cultural Patrimony Administration Acquisitions IT&C service	Deputy Superintendent Head  Specialist officer Head	

\*We believe that the inclusion of the IT&C component in the entity`s operative structure is unsubstantiated because the duties, work procedures and regulations that govern them are identical to the logistic structures and the contracting and equipment is done through the department of public procurement, way applied similar also in the logistics structures. Therefore, we support the idea of including this component in the support class structures.

The importance of logistics is evident, the status of this structure is well defined within the organization and its involvement is at all levels of management on the planning – execution axis.

In literature there are schools of thought that joins known components of logistics (equipment, management heritage real estate, feeding, automotive, armament, procurement, IT & C, etc.) also the the structure of financial accounting, audit, control, and even the legal side or planning activities, selection, personnel record keeping (Cruceru, et al, 2013).

#### 4. Conclusions

We conclude that, in full accordance with principles, a complex support structure, under the direction of a deputy head of the organization should ensure: the participation of specialists in document management, compliance management unit through hierarchical relieving head of the institution by delegating powers to a coordinator of all activities support and direct pursuit of efficiency and effectiveness of the entire organization.

The need for standardizing the way of organizing the logistical structure in subordinated structures of M.A.I., in terms of similarity of tasks, is necessary and appropriate to ensure an efficient and specialized management and also to ensure structural compatibility between M.A.I. components and greater specialization of staff.

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## Marketing Mix in Services

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### Abstract

*In a hypercompetitive environment, one in which it is difficult to gain substantial competitive advantages, it is becoming harder and harder to differentiate yourself from the rest, especially when activating in the services field. In order for a company to scientifically act, react and manage to satisfy as well as possible the customer's needs, it should carry out a rigorous management process of services marketing. In the past, the marketing mix comprised 4Ps: product, price, place and promotion. As the client's requirements grow and become more complex, an irrefragable need occurs to extend the traditional marketing mix with another 3Ps: people, physical evidence and process, that highlights the importance of these elements and place them on the relevancy scale that no manager should ever neglect. The aim of the article is to render in brief the components of the marketing mix in services. The research methodology is literature review.*

**Key words:** marketing, mix, 7Ps, services

**J.E.L. Classification:** M31

### Introduction

In the twenty-first century the services literature enhances the importance of understanding in depth the role played by the services marketing mix in obtaining a competitive advantage, a differentiator from other companies, essential elements required in order to “plan and execute marketing strategies” (Alipour, M., Darabi, E., 2011, p.69).

There is a clear dichotomy between manufactured tangible goods and intangible, heterogeneous services (Moeller, 2010, p. 359).

Since its emergence, the concept of marketing mix has proved to be one of the key concepts of marketing theory. In its traditional form, the marketing mix comprised the so-called 4Ps (product, price, promotion and place). In time, the 4Ps framework (McCarthy, 1964, p.35) has been continuously enriched by various researchers. Borden (1965) provided a set of 12 elements that made up the marketing program (Borden, 1965, p.389), namely: product planning, pricing, branding, channels of distribution, personal selling, advertising, promotions, packaging, display, servicing, physical handling and fact finding and analysis. However, the 4Ps have to work together in “a single marketing plan to satisfy the customer's needs and allow the firm to make a reasonable profit” (Zineldin et al., 2007, p. 231). Taking into consideration that the traditional 4Ps will not suffice services, Booms and Bitner extended them, adding three additional factors as marketing mix variables: people, physical evidence

and process. Thus, the 3Ps “together represent the service and provide the evidence that makes services more tangible” (Continuum Learning, p.1).

### Marketing mix in services

There are four characteristics of services widely accepted by scholars and marketers that make both the distinction between them and products, and between services marketing and the marketing of products, and are used as the basis for designing the marketing mix in services. The so-called IHIP characteristics are the following:

- intangibility,
- inseparability,
- heterogeneity,
- perishability (Table no. 1).

*Table no. 1. The four characteristics of services*

No.	Characteristics	Meaning
1.	Intangibility	Services are not being palpable, they are immaterial.
2.	Inseparability	It shows the simultaneous delivery and consumption of services (Regan, 1963).
3.	Heterogeneity	It reflects the potential for a high degree of variability in service delivery.
4.	Perishability	It reflects the fact that services cannot be stored (Zeithaml et al., 1996).

*Source: own adaptation*

It is due to these characteristics that services require a different type of marketing and a different marketing mix (Booms and Bitner, 1981, p.70).

Starting from McCarthy’s popular marketing mix framework, combined with the critical need for its modification in order to accommodate the requirements of the continuously changing specifics of the marketplace, Brunner’s proposition was to extend it into the concept, cost, channels and communication mix (Brunner, 1989, p.72). The argument is that these elements “must be extended to include more factors affecting the services marketing thus becoming mixes themselves” (Goi, C.L., 2009, p.10). Booms and Bitner are the ones that incorporated process, physical evidence and participants in the equation, extending the classical 4P’s, gaining a “widespread acceptance in the services marketing literature” as the extended marketing mix – 7P’s (Rafiq, M., Ahmed, P.K., 1995, p.4). They argued that by analyzing them separately, one can notice that these factors are of “expressed importance” to service-firm managers (Bitner, 1990, p. 70).

The 3Ps integrated in the services marketing mix are:

**People:** this factor refers to all the people that contribute to or are involved in the development or supply of a service. They could influence both the quality of the provided service and the perception of the consumer. Their personality, the way they act, talk or dress, could all be relevant to what a consumer feels that he has benefitted from that particular service. Even though many economists and entrepreneurs are constantly looking and rooting for efficiency at all levels, often by replacing human capital with technology, people are still considered to be the heart of an enterprise. Even though the above mentioned fast paced shift is mostly relevant for the industrial world, “where machines and processes are autonomous, requiring less human intervention” (Boakye-Adjei, K., Thamma, R., Kirby, E.D., 2014, p.1), the services field is no stranger to the phenomena. Even though, in terms of cost and efficiency, significant advances in technology somehow push the human factor outside the production equation, “many services will always need direct interaction between customers and service employees” (Lovelock, Ch., Wirtz, J., 2016, p.41). This is why some services are better executed by some companies rather than the others, because they rely on the skillsets of their personnel. It is

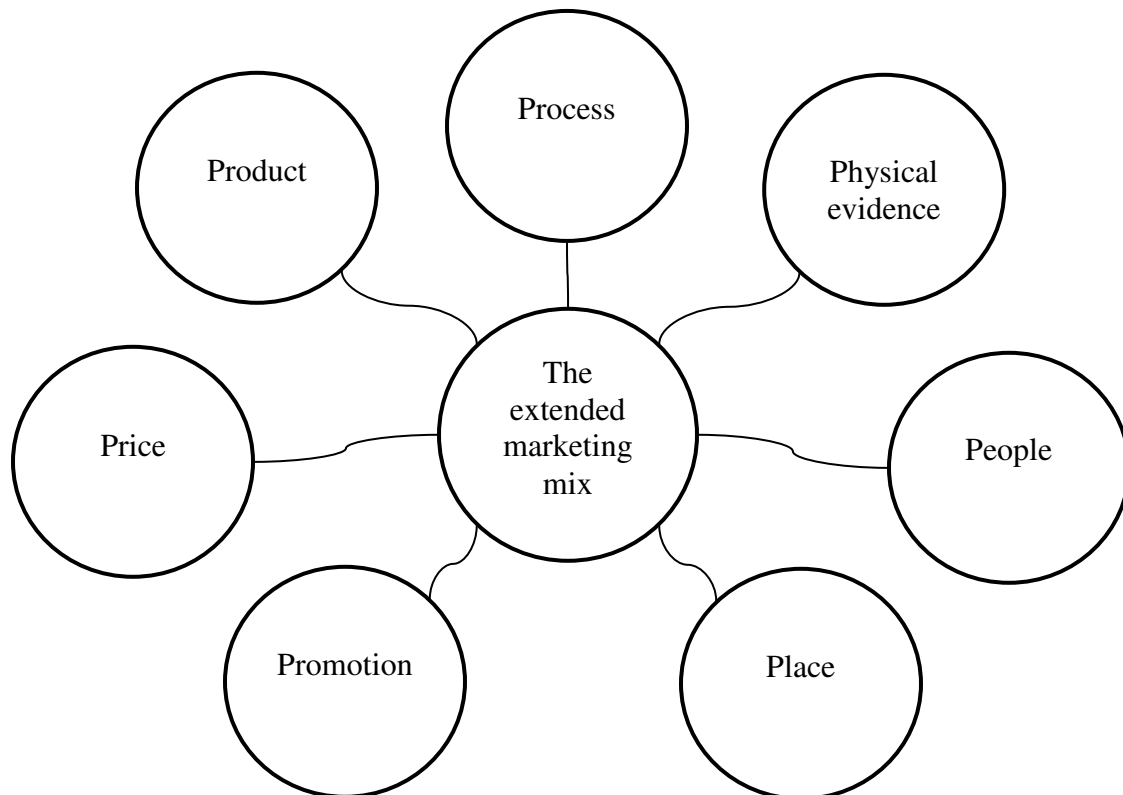
important to know that consumers may and usually do play an important part in the process, sometimes even influencing the service’s quality. Another relevant issue for a company is the whole cycle that integrates recruitment, pre-selection, selection, training and motivation of the service employees. It is essential for a wage-earner to possess both technical skills and interpersonal skill blended with a healthy attitude.

Physical evidence: incorporates all tangible representations of a service, the concept referring to the environment in which a service is delivered and in which the seller and customer interact. This is one key factor by which a company may help out a client determine the quality of its services by providing as much evidence (tangibles) as possible. Thereby, the consumer may evaluate the services without him having to rely strictly on trust of feeling. A company that focuses on designing a great servicescape, ingeniously laying out tangible clues, can easily enhance the customer’s perception, contributing to a great experience.

Process: encompasses “procedures, mechanisms and flow of activities” (Rafiq, M., Ahmed, P.K., 1995, p.7). A process should be designed for the customer’s convenience and judging from his point of view, thus focusing it on his specific needs. When a company relies its activities on designing and re-designing processes with efficiency in mind, then they will not only have satisfied clients but also personnel, usually frontline employees. Reducing variability “by carefully designing customer service processes” (Lovelock, Ch., Wirtz, J., 2016, p.41) is a great challenge taking into account that operational inputs and outputs tend to vary especially more in the services field. Key to achieving this is standardizing procedures, incorporating technology to eliminate human error and improving the staff’s skillsets. One interesting and useful part of designing processes is involving customers and making them part of the phenomena, transforming them into (somewhat temporary) partakers in the co-production of the service good.

All the components of the extended marketing mix (Fig. 1) are interconnected, often producing a synergic effect.

Figure no. 1. The extended marketing mix – 7Ps



Source: Own adaptation



## Conclusions

The marketing mix notion implies an interrelation between the involved variables. The way a company determines the optimum dosage of each of the components used at any given time is a matter of success or failure. Because, generally speaking, service companies differ from those running in manufacturing, a need to develop, plan and execute specific marketing strategies occurred. Due to the fact that services are inherently linked to the production-consumption equation and that they are intangible, the traditional marketing mix incorporated the 3Ps, essential components for creating a service both useful and enjoyable to a client.

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## The SWOT Analysis of a Romanian Post-Sanitary Institution in Romania

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### Abstract

*Within the context in which nowadays the health services suffer changes that have never been met before concerning in significant reforms in progress, having a new approach in providing the services, the sanitary system has to face up with major challenges, but also with opportunities. Starting from a comprehensive research (literature review), the paper proposes the realization of a SWOT analysis within a post-sanitary school, which aims at emphasizing the main advantages of a post-secondary schools perceived by students and discovering major development opportunities for the quality of services offered by it, as a premise of the improvement of the sanitary schools, and thus, the health system in Romania.*

**Key words:** SWOT analysis, post-sanitary institution, management

**J.E.L. classification:** M10, M19

### 1.Introduction

SWOT is an acronym that stands for Strengths, Weaknesses, Opportunities, and Threats. It is an analysis tool that is used for understanding different situations that may arise within the business organization; hence it can also be used in decision making for a wide range of situations within the organization. SWOT analysis is used in the development of the business, evaluation of the competitors within the market, marketing, as well as the development of product reports and research reports.

Identifying a company's internal strengths is the first important step of the SWOT analysis. A strength is a resource advantage relative to competitors and the needs of the markets that a firm serves or expects to serve.

A weakness is a limitation or deficiency in one or more resources or competencies relative to competitors that impedes a firm's effective performance. Weakness does not mean failure. By truly and honestly identifying the weaknesses in an organization or section of a company, managers can create plans to manage, control, change, or address the weak areas.

A company does not work simply within the walls of the office. There are numerous outside pressures that exist. With this in mind, one can conduct a SWOT analysis that not only includes the internal strengths and weaknesses but also will be used to examine the external opportunities and threats. These steps examine the current business environment and attempt to predict the future in terms of competition, key trends, technology, staff availability, state and federal health-care regulations, and community economic issues.

An opportunity is a major favorable situation in a firm's environment. Opportunities are the areas where the business can provide needed services in the larger community.

Identifying threats can help managers plan and better handle problems that arise. A threat is a major unfavorable situation in a firm's environment. Threats can

be broadly based and difficult to identify but can be thought of in terms of "what if" in strategy-planning sessions. Threats can be treated as opportunities for change and growth. As challenges

arise, a plan should be developed to address those challenges in a way that the company not only survives them but also grows and prospers.

The SWOT analysis provides an ideal framework for managers because it is a simple yet accurate portrayal of the firm. The best situation for a firm is to maximize strengths and opportunities while attempting to minimize weaknesses and threats. (Hazelbaker, 2006)

The main purpose of SWOT is to provide meaningful insights to marketers about organizational key competencies after evaluating data gathered through marketing intelligence and to enable them in making best use of that data in utilizing opportunities, linking those with organization's strengths, identifying major threats, and minimizing weaknesses (Nasri, 2011).

The essence of this method is to highlight what is happening within the institution/company, so the focus is on strengths, it eliminates weak points and also discovers the opportunities and threats of the external environment. SWOT analysis has been used extensively in other industries but has not been widely used in healthcare (Kahveci and Meads, 2008).

## **2. Methodology**

This research aims to identify the degree of satisfaction of students to the institution and strengths, weaknesses, opportunities and threats in the post-highschool facilities, so a comparison can be achieved with existing school documents.

The investigation was conducted on a group of 31 students, future general nurses, they expressed their opinions on the subject of our interest in this case SWOT analysis.

The respondents group was comprised of: women and men aged 20 and over 35 years old, from first, second and third year of study, specialization general nurse.

Participants were given a questionnaire (instrument used to achieve this research), which have supplemented the information they consider relevant to these issues. Respondents were given enough time to complete the questionnaire, about 10 minutes. Supplementing the instrument research was voluntary, students were assured that the information they provided will be kept confidential.

The questionnaire includes 13 questions referring to the topic and the research management tool was made in the first half of the year.

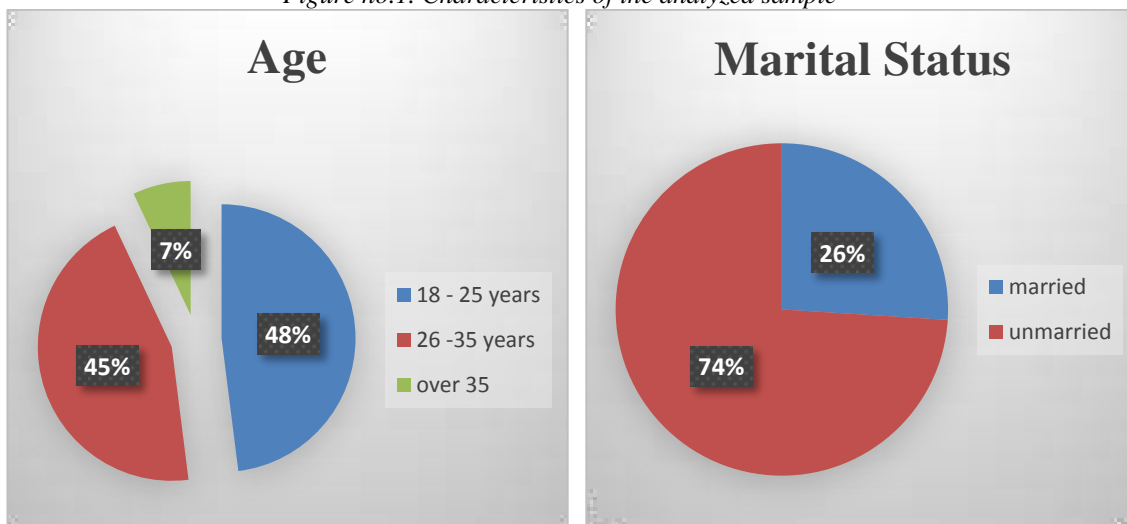
After applying the research instrument we compared the data of study participants with existing SWOT analysis of the organization, field of interest: human resources.

## **3.Results**

I conducted research in an undergraduate institution with health profile and I marked it with the “X” letter for confidentiality reasons. The number of people willing to participate in our research was 31.

The charts below provide information about the characteristics of the graduated group of students from the nursery school.

Figure no.1. Characteristics of the analyzed sample

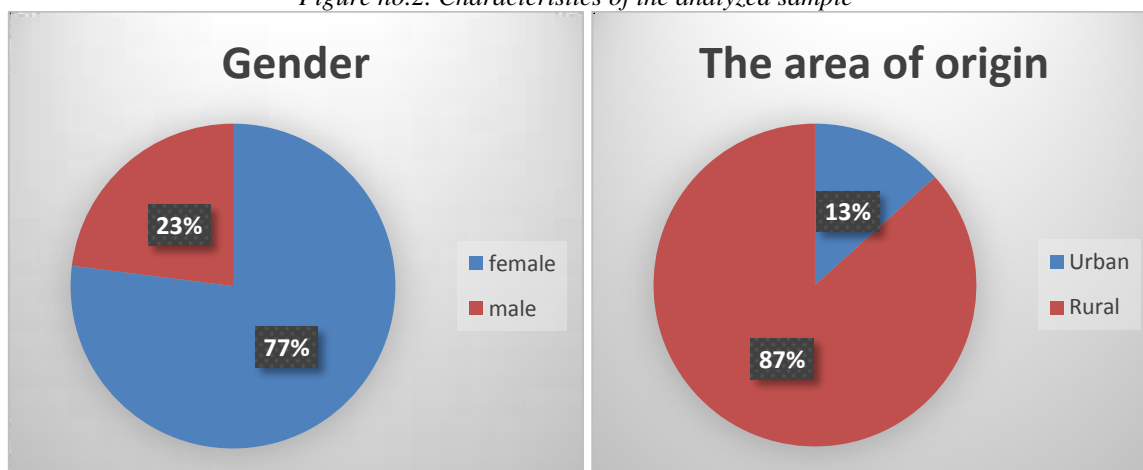


Source: Made by Authors

The first chart above shows that most respondents are aged between two intervals: 18-25 years and 26-35 years, representing a rate of over 90% from the total number.

An insignificant percentage of 7% is represented by the people aged over 35 years old. The second chart shows that a percentage of 74% are unmarried, others being married persons.

Figure no.2. Characteristics of the analyzed sample



Source: Made by Authors

The respondents are 77% female and 23% male, both of them coming from urban areas 13% and country side 87%.

## SWOT ANALYSIS – THROUGH STUDENTS POINT OF VIEW

We aimed to highlight the strengths, weaknesses, opportunities and threats of the health profile of an institution by the beneficiaries.

**The analyzed strengths** of the institution are found in the table above and we can observe the following: the students are satisfied with teachers professionalism (22%), teaching style (13%), seriosity, dedication and involvement in the act of teaching, learning and evaluation.

Most respondents choose this institution because they learned through the Internet that teachers from this school are directly involved in producing the study (nursing).

Teachers in the school actively participates in various volunteer activities in which they supervise the students to get the best results, the percentage being of 10%. A rate of about 5%, believes that labor market insertion of graduates in the health system is accomplished relatively easily

**The weaknesses** identified in the institution are: lack of homogeneity on the report in age between colleagues (26%), poor thermal conditions, 19% (very hot in summer and low temperatures in winter), TIC laboratory equipment below standard conditions (16%) and poor endowment with modern medical equipment and tools (10%).

A group of respondents (13%) are dissatisfied of the weak involvement of health professionals in clinical internship, because they can not put into practice the learned concepts.

Also some respondents believe that another weakness is represented by the lack of extracurricular activities regarding the involvement in sport, saying that the main reason is the lifestyle improvement.

We can observe in the above table the students proposed **opportunities**, where 40 % of them believe that the permanent update of the school website by introducing extracurricular activities and the school offer promotion would attract new students.

A considerable percentage of the respondents (35%) expressed their opinion regarding some possible hours of nursing / first aid where they can develop many practical activities.

The interviewed persons have the following proposals: changing practice uniform, rearranging classrooms by updating materials and available equipment within the unit and to arrange cultural activities (theater, philharmonic, excursions organized by the staff)

*Figure no.3. The SWOT Analysis created by students*



Source: Made by Authors

**The threats** that this institution is dealing with are: the increase of the school tax (48%), apparition of new nursing schools (23%), the low number of people who want join this instiution (19%) and economical instability (10%).

Comparing the results from students with the existing action plan made by the institution, we find the following things in common:

- **Strengths**
  - The analyzed school is accredited, it has its own anthem and magazine;
  - Both management and students are satisfied with the teachers performance because they are using the adequate teaching methods which are most suitable for everyone.
  - Students participate in various activities (conferences, presenting various topics of health education, volunteering, etc.);
- **Weaknesses**
  - School needs improvements such as endowment with medical equipment - (used tools / materials, multifunctional models, etc.), replacement of IT equipment and changing the thermal devices;
- **Opportunities**
  - The introduction of courses to stimulate students eager for knowledge in the medical field;
- **Threats**
  - Severe problem facing this institution is decreasing the number of students opting for this school;

### **Conclusion of the study**

Most institutions create their own rules that are sometimes exaggerated or not suits on the needs of people. These work well for a while, but over time there has been a decrease in the number of persons willing to opt for the offered services. The above conclusion can adapt also in this case, regarding the analysis that we performed in pre-university institution with sanitary profile.

Students are satisfied with the training activity, because there are used diversified teaching methods to attract the student into the process of learning and to stimulate the practice of this job safely.

It should be considered that besides teaching conditions offered by the teacher, the environmental conditions offered by the institution in which the educational act occurs are equally important. Base material (tools, medical equipment, etc) is a prerequisite that the student, future nurse assistant, puts great emphasis and may influence his future. Periodically, the institution should aim to provide changes based on innovation, in order to attract a larger number of students, so they should initiate new courses and extracurricular activities, announced on the school website.

### **4. Conclusion**

The Strengths, Weaknesses, Opportunities, and Threats (SWOT) Analysis reveals that students are satisfied with the performance of teachers, mostly of them choose this institution because of the prestige of the authors of books in this field, who teach classes in this school. For better results, more relevant, we intend to expand the group of students analyzed inside and outside of this institution.

Finally, this SWOT Analysis provides a nice baseline for the development of the post-sanitary school, to cope with the new changes in the system, undergraduate institution analyzed, must adapt and create conditions as good or maybe better in relation to the institutions they compete.

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## The Cost Structure - Key Element in the Development of Product Policy

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### Abstract

*In the context of accelerating globalization, organizations need to face increasingly high challenges related to competitiveness. However a permanent adaptation to the impact of environmental factors involves actions that imply significant costs with a great impact on the profitability of the organization.*

*In this regard, planning the launch of new products or services requires a strategic approach, a structural analysis of the costs and the identification of opportunities to increase optimization with the aim of increasing the effectiveness of the product policy.*

**Key words:** costs structure, product life cycle curve, product policy, costs management, product profitability.

**J.E.L. classification:** M11, M21.

### 1. Introduction

In order for an organization to perform its activities it needs to adapt more and more to the market conditions and to integrate new technologies. Regardless of the field of activity (from construction, machinery and equipment to the consumer products industry), the management of organizations is required to pay close attention to all elements influencing the success of a product. In this respect the factors determining the success of a product can be weighed against the costs they generate during the lifetime of a product.

### 2. Categories of costs related to the product life cycle curve

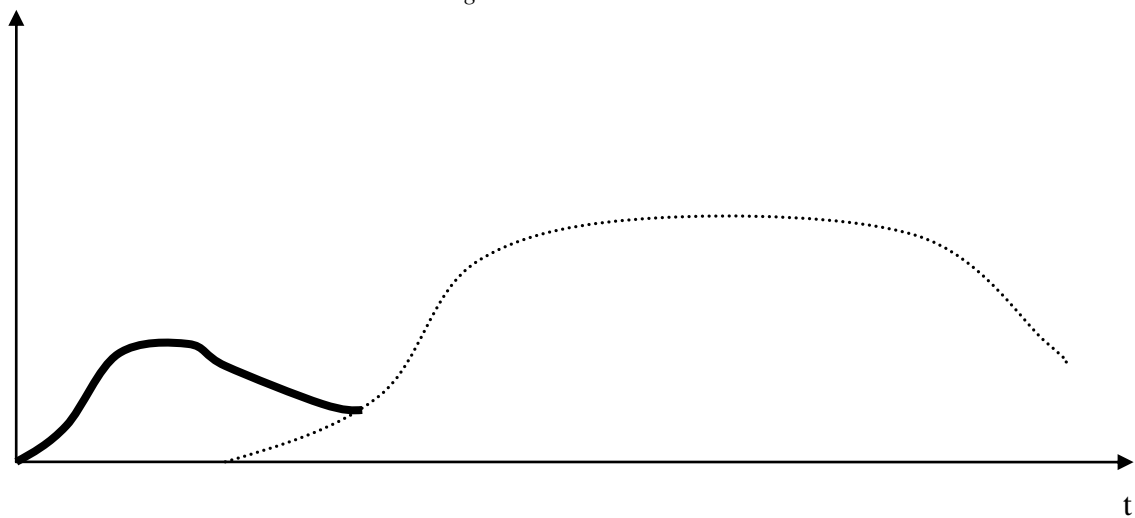
For the proposed analysis we grouped the costs depending on the time of occurrence with respect to the product life cycle curve (Purcărea, 1994, 39). Thus, we consider the following cost structure:

- costs of research related to the introduction of a new product in the portfolio and costs of development/ adaptation mainly oriented on ‘updating’ the production base;
- raw material costs (acquisition, storage, transportation);
- production costs (other than raw material costs);
- costs of sales (taking into account the logistics of the sale of products and the promotion costs);
- administrative costs;

Regarding the first category of costs (the R&D costs) in relation to the product life cycle curve, they can be found closer to the “introduction” stage on the graph, with the possibility to expand in time throughout other stages due to the need to improve products, to satisfy some needs that require new functionalities of the product or simply to prolong the lifetime of the product. The figure

bellow illustrates a function of the research costs in relation to the product life cycle curve. It should be noted that this category of costs includes all the studies necessary to obtain the product prototype, including the costs for unreleased prototypes but which have allowed the accumulation of know-how. (Cârstea, 2000, 35)

Figure no. 1. The R&D costs



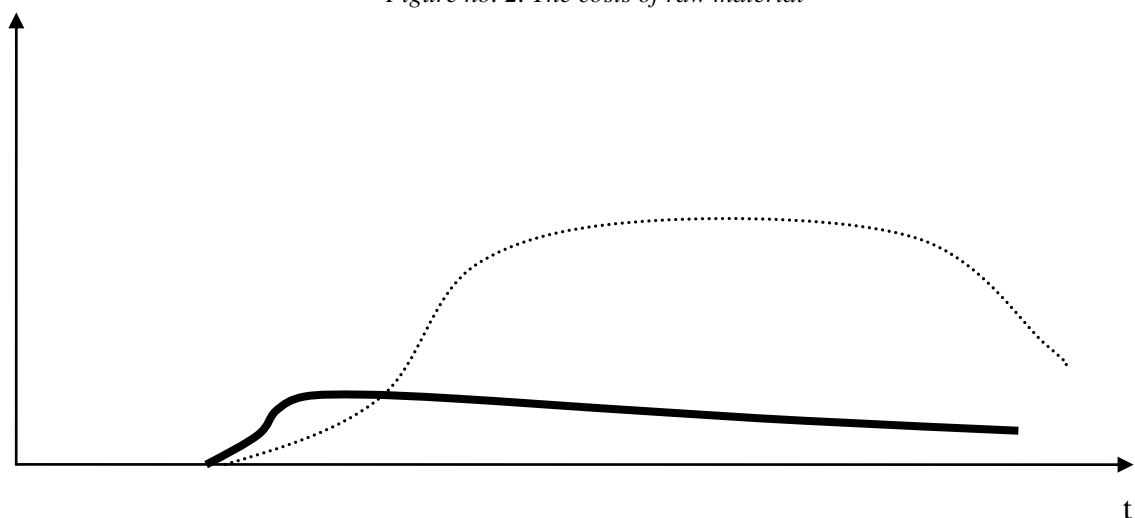
..... product life cycle curve

Source: based on (Cârstea, 2000, 35)

Regarding the costs of raw material acquisition, they can be reduced as a result of a good planning of their acquisition. Material requirements planning over a long period of time allows the negotiation of favorable purchase prices, the reduction of transportation tariffs and the optimization of storage. (Deac, 2014, 326-349)

The product policy which takes into account both the product and the price, by correctly estimating the quality and quantity of marketable products, provides the necessary information to optimize the costs of raw materials acquisition. Given the large share of these costs in the total cost (generally between 25-40%), their optimization provides a significant increase in the product profitability (Băşanu, Gh., 2012, 23). Figure no. 2 shows the evolution of these costs in relation to the product life cycle curve. (Cârstea, 2000, 66)

Figure no. 2. The costs of raw material



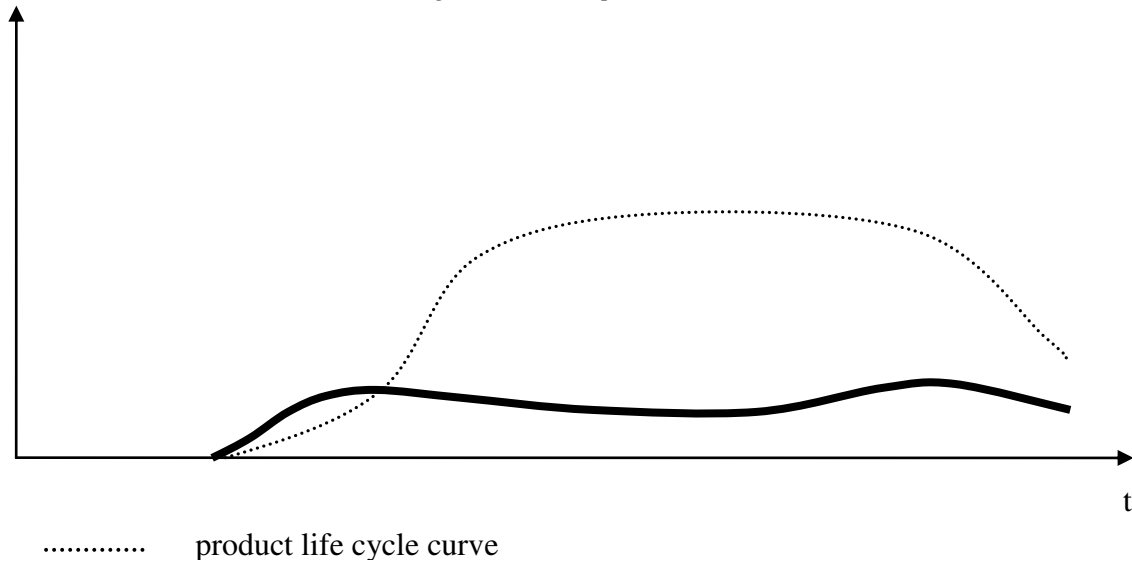
..... product life cycle curve

Source: based on (Cârstea, 2000, 66)



Production costs, along with the research and development costs are those that add value to the products/ services; after the manufacturing activity is performed they mainly yield advantages through product differentiation related to competitors (Deac, 2014, 286-325). Figure no. 3 presents the evolution of these costs in relation to the product life cycle curve. (Cârstea, 2000, 246)

Figure no. 3. The production costs

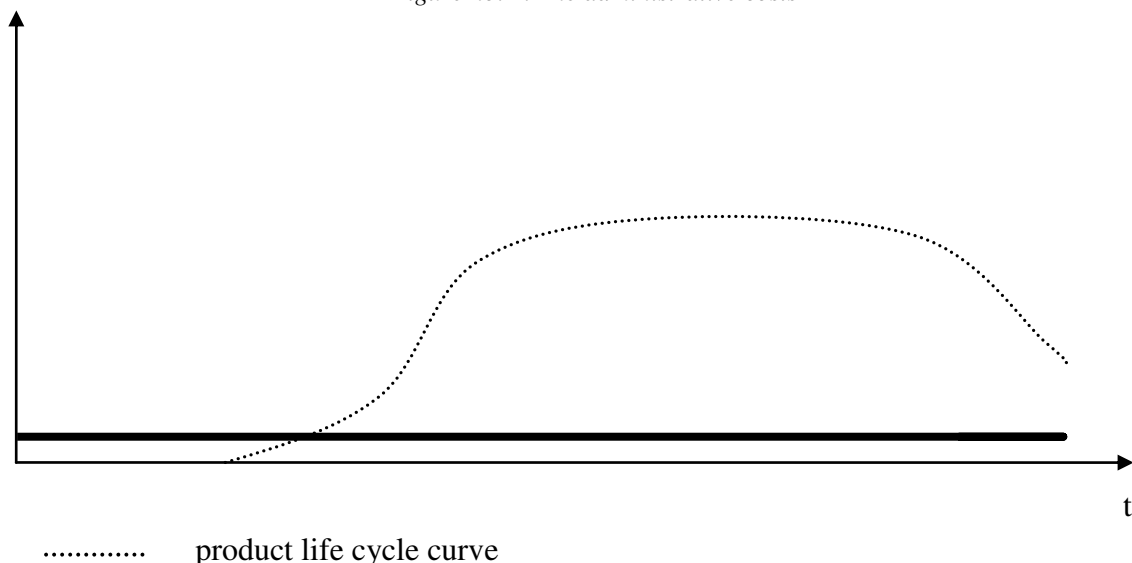


Source: based on (Cârstea, 2000, 246)

As can be seen in the figure above, changes in production costs are characterized by two points of maximum determined by two important influence factors: the gain of experience (which incurs significant costs) and the wear and tear of fixed assets with significant impact on the production costs.

Regarding the administrative costs, mostly fixed costs, they have a generally constant evolution throughout the product life cycle. The evolution of these costs is influenced by factors beyond the product policy. (Ursachi, 2007, 68) Figure no. 4 shows the evolution of these costs in relation to the product life cycle curve.

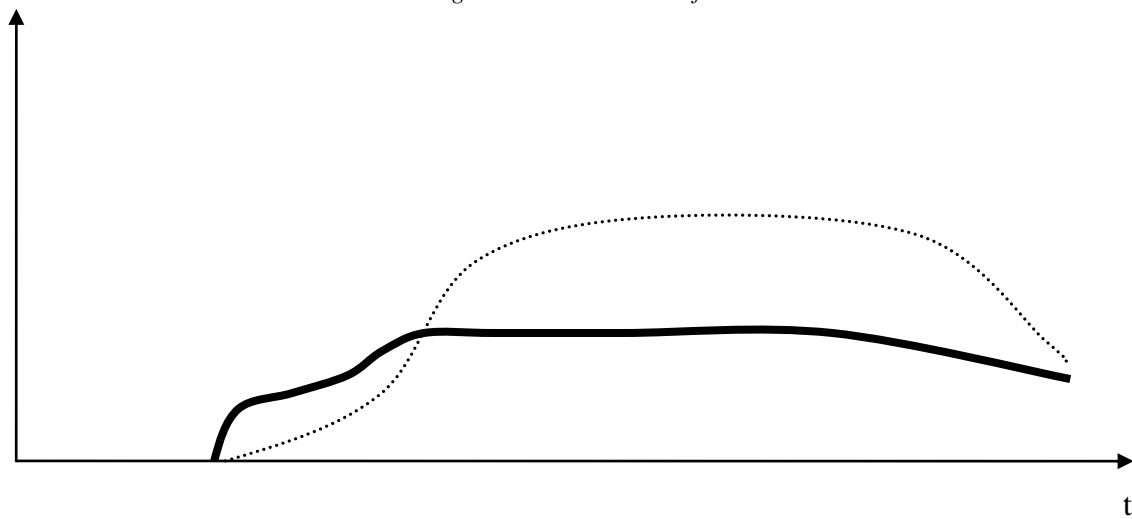
Figure no. 4. The administrative costs



Source: based on (Ursachi, 2007, 68)

The last major category of costs, the costs of sales, are characterized by a particular complexity due to the fact that these costs conclude the cycle of costs and directly influence the sale of products. (Bruhn, 2001, 150)

Figure no. 5. The costs of sales



..... product life cycle curve

Source: based on (Bruhn, 2001, 150)

Regarding the other categories of costs, due to the major impact of factors depending on the industry, their value will be considered negligible in the present study and will be expressed by the free factor "z".

The following figure summarizes all of the costs we addressed in this paper as well as the revenues related to a product on the market. The main objective regarding the lifetime of the product to be considered here is profit maximization. For this purpose the setting of a function for each category of cost is required, based on the graphs considered, which will be defined as:

$$y = \sqrt{x} / (\sqrt{x} - \ln(x)) \quad (1)$$

or

$$y = a\sqrt{x} / (b\sqrt{x} - c \ln(x)) \quad (2)$$

The total costs for each category will be:

$$y = \sum \sqrt{x} / (\sqrt{x} - \ln(x)) \quad (3)$$

or

$$y = \sum a\sqrt{x} / (b\sqrt{x} - c \ln(x)) \quad (4)$$

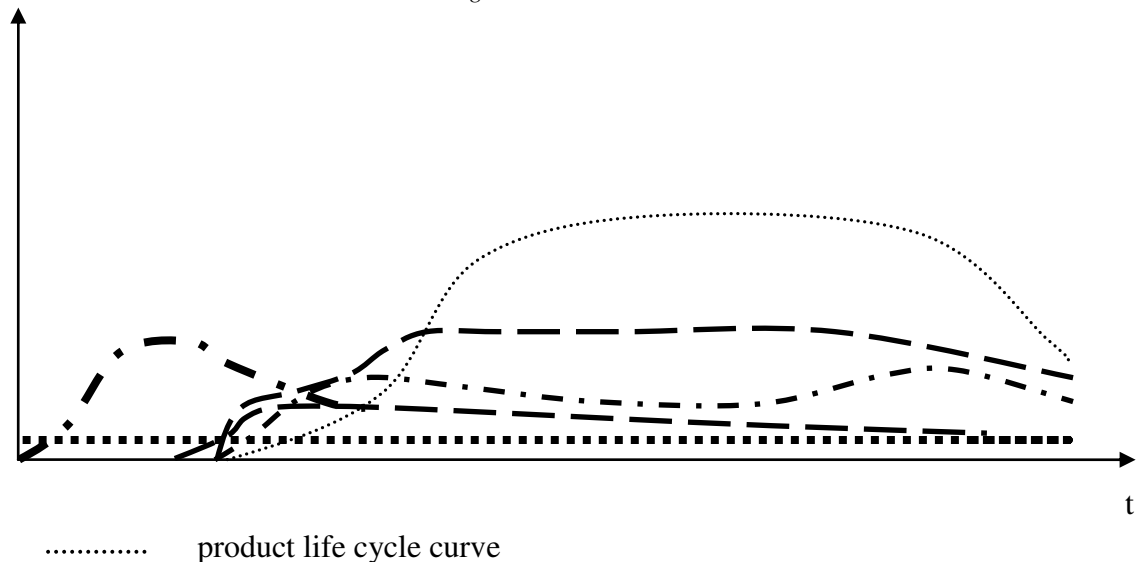
Where x represents the point of reference and a, b, c are coefficients. In our example a period of 36 time intervals was considered, structured as follows:

- 1-10: corresponding to research activities performed before the introduction of products on the market;
- 11-15: the introduction of products stage;
- 16-23: the growth stage;
- 24-32: the maturity stage;
- 33-36: the decline stage.

The intervals are indicative (strictly for illustration), in practice, they may substantially differ

from case to case. (Dinu, 2000, 102)

Figure no. 6. The total costs



Source: based on (Dinu, 2000, 102)

The optimization of costs functions associated to the product policy takes into account the synergy effect that is obtaining an overall maximum effect (Dinu, 2000, 102). The aim is to reduce costs overall, as evidenced in the following formula:

$$\min \sum y \quad (5)$$

The importance of the synergy effect is determined by the fact that the costs structure includes interdependent elements. For example, high R&D costs can enhance the reduction of the production or sales costs. At the same time, high R&D, acquisition and production costs can generate high quality which certainly provides a significant reduction in the costs of sales.

### 3. Conclusions

First of all, in order to have an efficient product policy a diminution of the time interval previous to the introduction of the product is required, a stage characterized mainly by costs of research, development, assimilation in production and eventually raw materials costs for the testing and eventually the introduction of products stages.

Secondly, in cases in which the circumstances require, the post-decline stage is diminished, a stage during which costs associated to warranty periods, maintenance and repair of products sold are recorded. For some product categories this stage may actually be omitted.

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## **Traditional and Current Aspects Regarding Fairs and Exhibitions Organized by Constanta Chamber of Commerce**

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### **Abstract**

*Sometimes, in marketing theory and practice it is used the generic phrase "manifestations or exhibition events", which actually refers to fairs, exhibitions, economic and/or business conventions, currently appreciated as being the most effective marketing tools.*

*We are witnessing the enhancement of the interest of companies or organizations to participate in exhibition events (as exhibitors and/or visitors) due to the benefits that can be obtained as a result of their participation.*

*In a significant extent, the success of an exhibition event depends on the activity of the organizer. The Chambers of Commerce are institutions which, still since their establishment, set themselves to be involved in organizing fairs, due to the role played by them in supporting and stimulating the entire economic activity, locally, nationally, and internationally.*

*In this work, we propose to present significant aspects of the history of fairs, presenting a case study on the activity of Constanta Chamber of Commerce.*

**Key words:** fairs and exhibitions, marketing tools, chambers of commerce

**J.E.L. classification:** L31, M21, M31, O43, R11, Z10

### **1. Introduction**

Even if the opinions of specialists in defining these actions are different, we shall keep in mind some generally valid aspects: fairs made their appearance first, long ago, as meeting opportunities between people, to exchange goods, being considered even forms of market, that included shares and acts of sale-purchase of goods, while exhibitions began to be organized later than fairs, as forms of presentation/exhibit of goods by manufacturers, without achieving their sale (Economica, 2003). Fairs combine the communication function with the commercial function, while exhibitions allow to manifest only the communication function. The theory and practice of marketing has taken these forms of meeting between supply and demand, gave them new dimensions and changed them into effective marketing tools, in a market economy.

### **2. Why fairs and exhibitions are or should be important for companies?**

Fairs and exhibitions are marketing tools through which it is aimed to be achieved, in a limited theoretical approach, the presentation and commercialization of products. In practice, they have acquired new dimensions. For exhibitors and visitors, fairs and exhibitions represent, as shown in a study realized by the Center for Research in Exhibitions from US, a very useful tool for getting information (Barbu). The same research highlights the main advantages of these marketing tools: they are on top in a ranking of the best methods of collecting information, among 13 other sales and marketing techniques; they contribute to increasing sales and the number of orders, they help in launching new products in a more efficient way compared to the promotion activity that can be

achieved through business to business, direct e-mail, public relations and telemarketing; they provide a more complete information on market trends in which the participating companies operate (Barbu).

Fairs and exhibitions also represent opportunities that offer companies the possibility to find new business partners or to develop the relationships with existing partners, but also to know the size and forms under which the competition manifest (Constantin, 2014). The exhibition events, due to the aspect that provide face to face meetings between different categories of participants, are considered to be able to contribute in creating a trustful environment between partners, which further reflects in developing business opportunities, research-development activities, stimulating innovation and increasing competitiveness in certain areas of activity (U.F.I., 2014). In this context, increasingly, it is discussed about fairs and exhibitions as representing successful actions if (besides stimulating trade and achieving the advantage of image by the participants) they create and stimulate innovation, not only in terms of products and services, but even regarding the concept of the exhibitions. Thus, the trend is that the exhibition event should provide a complex experience. This dimension is characteristic and can be achieved through the concept of "fair in fair", which involves the simultaneous organization of several exhibition events, which may or may not have a complementary theme. A major reason that determines an exhibitor to participate in fairs and exhibitions, is the desire to present the innovations from his activity, trying thus to attract customers and business partners, differentiating himself from the competitors. In the same time, a professional visitor is attracted to participate in trade fairs to inform about the appearance of new products, technologies, raw materials, which he could use in his work for creating /achieving a competitive advantage (The analysis of abroad exhibition events market, 2015).

### **3. Categories of participants in fairs and exhibitions**

In the most theoretical approaches regarding the participants in fairs and exhibitions, it is insisted, particularly, on the exhibitors, but we shall remember that, alongside them, there are also two other main categories: the professional visitors and the organizer/organizers of the exhibition event. Same as on the market, when any company can be in the same time (but in different transactions), seller and buyer, in the case of a fair, it can happen that a company can be an exhibitor, but also a professional visitor or have only one role: exhibitor or visitor. Regarding the organizer, the discussion about the fair as a marketing tool, presents certain particularities, compared to the aspects of the other two categories. Only a conjunctly approach, of these three large categories of participants, allows an accurate and complete understanding of the importance of the fair as a marketing tool, for ensuring marketing performance in any company.

In practice, it is possible that between the objectives and purposes set by the three categories of participants in the exhibition events, occur some divergences and contradictions. From this reason, it is necessary that the objectives of each participant to be known, to identify ways and means to reach their harmonization, as a condition for the success of the event. At the same time, it is recommended that all the three categories of participants show flexibility throughout the whole process of organizing and course of an exhibition event. Gathering information on all these issues, analyzing and processing them, may lead to the elaboration of realistic conclusions, useful for future actions (Constantin, 2014)

It is believed that fairs and exhibitions, in order to manifest as marketing tools should include four main components:

(1) the exhibition area, called pavilion; it has to be appropriate for the purpose and the profile of the exhibition event. The technical and information progress specific for the last decades, contributed to the construction and the performant endowment of pavilions from many places, some of which are recognized, internationally, as important centers where exhibition events take place;

(2) the organizer of the event, who ensures all the activities related to the preparation, the course and the closure of the event;

(3) the exhibitors, who are the participants in an event and who aim to present/sell their offer of products/services. They have the following objectives: attractive exposure of products and special prices/tariffs in order to ensure a low level of participation costs;

(4) the visitors, who are represented by professional visitors, people who come for information purpose, communication or to close a deal, or another category of visitors, called the general public (Economica,2003).

The organizer of fairs and exhibitions is responsible for offering an increasingly diverse range of specialized activities, in order to ensure the success of the events, so that each participant achieve the objectives pursued. Among the most important tasks the organizer is responsible for, are: conducting marketing activities related to the design of the event; identifying, attracting and selecting participants (exhibitors, visitors, sponsors, speakers, prestigious specialists, providers of various services necessary for supporting the event, etc.); choosing the location, preparing and ensuring all the technical-material and services endowment, required during the event (Zamfir, 1997).

The efficiency of the organizer’s work should be seen not only in the volume of revenues, respectively the profit made from organizing an event, but also in the appreciation level expressed by each participant. Even if this last aspect is likely subjective and therefore difficult to be quantified, it is very important to be known, because it may influence the success of future editions of the event.

One aspect that contributed to the increase of the interest to participate in fairs and exhibitions, for exhibitors and visitors (together with the advantages already mentioned) is the environment created within the event (Economica, 2003). First, this environment has to be appropriate for the interaction between exhibitors and visitors, in order to support the development of business, but also to increase the image and the notoriety of the participants. The environment created around the event can be achieved through a series of complementary actions, that can contribute so that each participant attain its objectives (Zamfir, 1997). We should mention, in this context, the most common types of events until present, namely: congresses, conferences, symposiums, seminars, fashion shows, product presentations, demonstrations of use/utilization, tastings. At the same time, by using and mixing these complementary actions, in an original way, in particular by the organizers, it can be ensured the differentiation of each exhibition event. It is estimated that, in their strategy, the organizers of fairs and exhibitions should take into account the development of new activities and the diversification of virtual services/events.

#### **4. The Chambers of Commerce - main organizers of fairs and exhibition in Romania. A study on Constanta Chamber of Commerce, Industry, Shipping and Agriculture**

The Chambers of Commerce are, currently, institutions of the market economy mechanism, which operates corresponding to a specific legislative framework, with a strong impact in ensuring social-economic development, at local/regional, national, bilateral and international level.

This type of institutions have emerged long time ago (in developed countries in terms of economy) due to the desire, especially manifested by industrialists and traders, to come together and form organizations that would defend their interests and would represent them towards certain state institutions. The first Chamber of Commerce in the world was founded in 1599, in Marseilles. The stated purpose of establishment of this institution was „... to control and protect commercial business ...”. (Bacau Chamber of Commerce and Industry)

Later, in 1805, under the reign of Napoleon, it was founded what today is called the Chamber of Commerce and Industry of Paris (Juganaru, 2015). The first chambers were established, on the current territory of Romania, in 1850, in Transylvania (Cluj, Brasov, Timisoara, Arad, Oradea and Targu-Mures) and based on the Law of the Chambers of Commerce (1864), in the Romanian Principalities there were established fifteen Chambers of Commerce in: Bucharest, Turnu-Severin, Craiova, Turnu Magurele, Giurgiu, Braila, Galati, Ismail, Barlad, Iasi, Piatra Neamt, Bacau, Focsani, Botosani and Ploiesti. By setting up these institutions, it was intended the connexion with the Western capitalist economic system, which became, after the second half of the XIX century, a political, economic and cultural model for the Romanian Principalities (The Romanian Chamber of Commerce and Industry). Shortly after the War of Independence (1877-1878) and the annexation of Dobrogea to the United Principalities, it is founded, in 1880, Constanta Chamber of Commerce, whose purpose was to protect the interests of traders and industrialists of the area between the Danube and the Black Sea and to stimulate their economic activity. To

achieve these objectives, Constanta Chamber of Commerce was organized into several sections, namely: Grains trading, Clothing trading, Oil, derivatives and timber trading, Various tradings, Small trading, Credit and insurance, Food industry, Various industries, Small industry (Juganaru, 2015).

In the history of the chambers of commerce, several laws issued in 1864, 1886, 1925, 1934, 1949, 1973, 1990 and 2007, regulated their activity, depending on the economic and political situation (The Romanian Chamber of Commerce and Industry). All the county chambers in Romania functioned until 1949, when, by Decree no. 74 of November 25<sup>th</sup> 1949, they were abolished. The Romanian Chamber of Commerce and Industry was the only one kept, but passed under the Ministry of Foreign Trade and mainly, dealt with the organization of Romania's participation in international fairs.

After a period of 50 years, by Decree-Law no. 139 from 1990, the system of Chambers of Commerce and Industry of Romania was reestablished and by Decision no. 799 of July 23<sup>rd</sup> 1990, the Government recognizes the establishment of several county chambers, among which Constanta Chamber of Commerce, Industry and Shipping (Juganaru, 2015)

According to the Law of their establishment, from 1864, the chambers had a double mission: advisory and administrative. Regarding their advisory mission, the chambers had to present to the government and to the public administration information about the interests and the activities of merchants and industrialists in their constituencies. The administrative mission of the chambers regarded the management of several economic objectives in their constituencies, as, for example: sea and river ports, free areas-in ports, shipping channels, trade stock exchange, fairs, commercial and industrial museums, commercial and industrial schools (Bacau Chambers of Commerce and Industry). We shall keep in mind that, since their establishment, the chambers of commerce were involved in "managing" fairs. In the same context, we shall mention that, also since its establishment, Constanta Chamber of Commerce had the following responsibilities: registration of companies, organization of markets and fairs, setting custom schedules, compilation of statistics, setting up and supporting trade and vocational schools (Juganaru, 2015).

About the existence of fairs in Dobrogea it is known that the largest one was founded in 1756 by the Sultan Mahmud I and was held in Medgidia, twice a year: in June and October, when there were sold, in particular, agricultural tools, cattle, trays, various manufactured objects. During the Ottoman domination, it is mentioned the existence of four fairs, that were organized in Balchik, Bazargic and two in Medgidia (Juganaru, 2015).

Since the establishment of Constanta Chamber of Commerce (1880), there were also founded two fairs in Constanta; one was "The fair of raw corn fields" and was held between 1-15 of May, and the other was specialized in selling cattle, cheese and rams and was organized between 1-15 of September. This concern has grown, so, in 1928, Constanta Chamber of Commerce came to organize fourteen fairs, specialized in grain and other goods, as well as 4 cattle fairs (Juganaru, 2015).

In the press from that period (in "Dobrogea Economica" newsletter, no.79-80 from 1-15.XI.1937, edited by Constanta Chamber of Commerce and Industry) there are recorded two important events: the inauguration of the Grain Exchange building from the new Market and the inauguration of the Regional Economic Museum of Dobrogea, both actions being "...called to contribute, in a larger measure, to the growth of agriculture, commerce, industry and other branches of the regional economic activity" (Juganaru, 2015). Regarding the Economic Museum (located in the Chamber of Commerce Palace) it is recorded that it was organized as a permanent exhibition of products from Dobrogea. In the four hall were exhibit the most important and most representative products from Dobrogea, from natural products of local flora and fauna, to subsoil and industrial products. The President of the Chamber from that period (Mr. Nicolae Stefan) appreciated this museum as being "the economy of Dobrogea, in miniature, in order to know how and what to work"; he also considered that visitors "... foreigners of the country, arriving on water, foreigners of the city, arriving by train, will have another attraction" (Juganaru, 2015, p.30). Another figure who attended this event, Mr. Gh. Cristodorescu, general manager of the Union of Chambers of Commerce and Industry of Romania, recalled in his speech about "the wise words of His Majesty, King Carol II", delivered on the occasion of the first Congress of Chambers of Commerce, held in Constanta, while HM was crown prince "... I know the difficulties that oppose against the

normalization of life, I also know the spirit of the vicious public, to receive particularly products from abroad, but that is why it is the duty of all, in these difficult times that we pass through, to educate the public that in our country are and can be made things just as good, if not better, as those from abroad” (Juganaru, 2015, p.30). This analysis of the behavior of the Romanian consumer, even though it was expressed almost 80 years ago, it can be said that it is valid nowadays, too, when many buyers are attracted (for various reasons) of foreign products and ignore, even refuse goods made by the Romanian producers (some of these goods, like 80 years ago, being even better than the imported ones). In this context, it is worth to point out the current concern for the organization of fairs having as main purposes promoting the Romanian products, educating the Romanian consumers and creating a new buying and consumption behaviour, contributing, through these pursuits to support the Romanian producers. By Decree no. 74 of November 11<sup>th</sup> 1949, Constanta Chamber of Commerce and Industry was abolished and by Decree-Law no. 139 of 1990 it was reestablished, with the title of Constanta Chamber of Commerce, Industry and Shipping. Later, in April 1996, following the decision of the General Assembly of its members, the Chamber’s name was completed, adding the word Agriculture, thus becoming Constanta Chamber of Commerce, Industry, Shipping and Agriculture (Juganaru, 2010)

The activity of organizing fairs is a constant concern of Constanta Chamber of Commerce, Industry, Shipping and Agriculture (CCINA). In 1991, it was founded, within the structure of the Chamber, the company Targuri si Expozitii SRL, and in 1999 its name changed into Expolitoral SRL. Between 1990-2015, the Chamber has organized over 290 fairs, exhibitions and specialized salons, locally and nationally, some with international participation. Among the most representative actions, we shall mention: the Clothing and Footwear National Fair (TINIMTEX), which reached in 2015 its 65<sup>th</sup> edition; the Metal and Chemical National Fair (TINMEC); the Agriculture and Food Industry National Fair (EXPOAGROUTIL), with international participation, which reaches its 24<sup>th</sup> edition, in 2016; CCINA is the only Chamber in Romania, which organizes exhibitions in maritime transport, in collaboration with foreign partners.

During CCINA’s entire activity of organizing fairs and exhibitions, the issue of the location of the event (place of venue) represented the main problem. Even if, from 1990 until now, there were made great efforts to build a special building, in the Chamber’s property, designed and intended for organizing fairs and exhibitions, this objective was not achieved yet. From 2009, after Constanta County Council finished the construction of the Exhibition Pavilion, CCINA organizes most of its fairs and exhibitions in this location.

## 5. Conclusions

History records that fairs have emerged in the world, long before the establishment of chambers of commerce. In Dobrogea, it is mentioned that the first fair was organized 260 years ago (in 1756, during the reign of the Ottoman Sultan Mahmud I). From the establishment of Constanta Chamber of Commerce, in 1880, organizing new exhibition events has become a constant concern in the activity of this institution, regardless of the changes in its structure and its name that occurred until 1949. Still since the period between 1880-1949, Constanta Chamber of Commerce, through the actions of organizing exhibitions, got itself noticed both locally/regionally and nationally. After its reestablishment, in 1990 and the change of its name from 1996, Constanta Chamber of Commerce, Industry, Shipping and Agriculture, through its activities, especially those regarding the organization of fairs and exhibitions, stood out as an institution with national and international recognition.

Regarding the concerns on growth performance in organizing exhibition events, CCINA will pay special attention to both exhibitors (regarding offering them information about new fairs and exhibitions, monitoring their activity and creating an appropriate environment to stimulate business during the course of exhibitions, establishing and developing relationships with representatives of exhibiting companies) and visitors (in terms of knowing their needs and their behavior, their segmentation and creating databases). Also, besides its traditional events, CCINA has in view the international trend in the industry of fairs towards specialized fairs (niche) and thus will be preoccupied with organizing new exhibition events.

Knowing that by organizing fairs and exhibitions are created social-economic effects with



impact at local/regional level (such as: creating new jobs, infrastructure development, stimulating the activity of companies from different fields of activity, improving the image of Constanta city and so on), CCINA’s activity (as main institution having the role of organizing exhibition events) should be supported and sustained by the territorial administrative structures.

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## Historical Traces and Contemporary Approaches regarding Fairs and Exhibitions, as complex Instruments in Marketing

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### Abstract

*Fairs have evolved permanently since their appearance until now, in terms of content, forms of organization, means and techniques of realization. The organization's concerns to promote their offer more efficiently led to an increase of the role and importance of fairs, as marketing tools. "Fairs and exhibitions", an expression used in theory, but also in practice, can be used in every area of activity, of all companies, regardless their size and activity field, ensuring a tailored marketing, able to assure economic success and a positive image to all participants in these events.*

*The technological progress in all areas of activity, specific for the last 50-60 years, influenced in many ways, also the "fair and exhibitions industry."*

*In this paper we propose to analyze the general evolution of fairs and how they became, in time, tools of intern and international marketing.*

**Key words:** fairs, direct communication, business success

**J.E.L. classification:** M10, M31, M37, Z10

### 1. Introduction

In Romanian language, the term „fair” received over time, a large number of senses/meanings, of which we have selected some, considering them representative for the aspects that we seek to present in the content of this article. By "fair" it was referred to a closed, delimited place from a locality, where they sold cattle, grain, wood and others, or a public place where they sold various products for consumption; in other situations, the fair served as a trade center between products made in the mountain regions and the plain regions.

Understood as a place for trading goods (which, at first, was realized as bartering and then as an act of sale-purchase), the fair was considered synonymous with the cattle fair, the mart, the marketplace. In the urban context, the term of fair was used to define a human settlement, smaller or larger (thus we explain why it appears in the names of several localities, like: Targu-Neamt, Targu-Jiu, Targu-Mures, Targu-Frumos) or in order to mark off the downtown of the city, namely the area where there were shops, in other words, where it was located the shopping center. In the same time, in everyday speech, the term "fair" is used to refer to a series of actions / activities: arrangement, agreement, understanding, bargain, combination, haggle, convention, discussion, amounts of money given and received, contract, deal concluded, transaction, sale and purchase. (Scrisul romanesc, 1929; Academia Republicii Populare Romane, 1955-1957; Universidad de la Laguna, 1958-1966; Litera International, 2002; Univers enciclopedic, 1998; Univers enciclopedic Gold, 1998).

### 2. The history of fairs

Internationally, it is known that fairs existed since ancient times. It is mentioned that in the

middle ages, fairs were organized in the major cities of France, England, Germany, Holland, Belgium, Italy and Switzerland and were considered the most important forms of European trade in those times (Constantin, 2014). Taking into account that, in that period, travel possibilities were difficult and expensive, the fairs were organized annually and represented the only possibility to purchase procured goods/products at great distances (Zamfir, 1997).

In our country, we won't find too many precise information related to the appearance of fairs, and the chroniclers remembered in their writings more information about wars, the erection of churches and monasteries. It can be assumed that the organization of popular and religious celebrations, which were gathering lots of people, was exploited by traders/merchants, who came in the respective places with their offer of goods (thus we explain why they were also called „townfolks”) (Bucurescu, 2009). It is known that the first administrative organization of fairs was made by Alexandru Lapusneanu in 1561 (Universidad de la Laguna, 1958-1966), and on May 20, 1865 was held in Bucharest the first national exhibition of agricultural and industrial products, due to the initiative of two distinguished scientists: Ion Ionescu de la Brad and Petre S. Aurelian. This event was considered to be the expression of tradition ... ”annual organizing of dozens and perhaps hundreds of fairs, marts, in all the areas of the country, where buyers and sellers meet to satisfy their needs ... leaving particular traces in people's and authorities mentality, occasions on which the first signs of later exhibition and trade dialogue were blossomed.”(Zamfir, 1997, p. 24)

The activity of fairs began to be supported also by various publications. Thus, in 1988 the weekly newspaper called „Expozantul” appeared, addressed especially to those interested in participating in fairs and exhibitions. Some years later, in 1906, on the occasion of the opening of the first national exhibition entitled „Luna Bucurestilor”, it was released the first number of the newspaper „Adevarul de la Expoziție”, considered to be ... "the only newspaper approved by the Exhibition's Commissary” (Zamfir, 1997, p. 24). In various works of the Romanian literature (we recall only the writings signed by Creanga, Alecsandri, Vlahuta, Caragiale (Universidad de la Laguna, 1958-1966), it is referred to fairs, being described the activities that occurred during a fair, the state of mind that it was created, the importance/significance that the fair had for the life of a community.

In the publication "Moftul roman", from May 18, 1901, an outstanding personality of the Romanian literature, the dramatist I.L. Caragiale, done (without knowing the elements of marketing) a market study, detailed enough, regarding "Targul de Mosi" (from Bucharest): ... 'ginger bread – panoramas – tricolours – braga – balloons – soldiers – suburbanite – lampions – lemonade – tailcoats – decorations – decorated – ladies – menageries – provincials – whistles - beggars – tubs – bagpipes – children – ministers – pickpockets – gapers – babysitters – nannies – buckboards – music – fireworks – snapshots – comedy – raffles – pots – flags - barrel organs - vanilla ice cream – steaks – calicos – mugs – wormwood – ponies – bicycles – horses – cows - oxen – gendarmes – nieces – aunts – uncles – cousins – widows – orphans – butchers – wheat – coats – mattresses – coverlets – flowers – chairs – beds – tables – mirrors – earrings – rings - coffee pots – Turkish” (Bucurescu, 2009). In all the entire description, which some might consider it chaotic and senseless, reference is made to: fair participants (sellers, potential buyers, visitors, service providers); goods diversity; attraction, environment and ambience created by the fair; purpose/purposes of participants (some wanted to sell, others to buy, some wanted to be noticed, others came just for a walk). Aspects of verbal and nonverbal behaviour of participants at the fair (especially those related to clothing, gestures, attitude and other elements captured in various photo-audio-visual materials) can be considered elements that express the culture of a nation at a certain time, while the structure of goods offer and the technical-material endowment of the fair reflected the level of economic development of an area or country.

### **3. Fairs – marketing tools**

In marketing literature, it can be noticed that, most often, the expression "fairs and exhibitions" is used to define all the promotional events through which profit-making organizations (and more recently also non-profit ones) from various fields, present their varied offer (in a continuous process of diversification and innovation) to the public. Some experts believe that between fairs and exhibitions would not be substantive differences, while others confine the two concepts, by

their characteristics. According to this point of view, the fairs gather, in a balanced formula, the commercial and communication function, while exhibitions focus on the communication function (Adascalitei, 2003)

Within fairs and exhibitions, there are three main categories of participants: the exhibitors, the professional visitors and the organizers of the fair. In this study we intend to analyze the fair as a marketing tool, used in particular by exhibitors. When referring to the interests of the three categories, regarding the participation in fairs and exhibitions, it might be thought that, to some extent, there are discrepancies between them, because each one aims to achieve its objectives. But, in the marketing approach, it has to be taken into account to be ensured the convergence of their interests just as a condition to assure the success of the fair as a marketing tool for all participants.

Since their appearance, fairs combined the commercial function with the communication function. Over the time, these two functions have recorded changes regarding their role and how each one manifests. Of all the issues presented in the part of history of fairs, it can be said that predominant in terms of importance, was the commercial function of fairs (they were considered the main forms of purchasing products, for different categories of buyers).

Even in this situation, the communication function was present and aimed to support the act of sale. Perhaps, as the degree of civilization, the level of socio-economic development, the diversification of the offer and the possibility of choosing goods increased, it would have been created the conditions for a resetting of the importance of the two roles of fairs. In addressing this issue, we believe it can not be discussed about a possible competition or substitution of their roles. Is it accurate to understand that, in the evolution of the concept of fair, each function sustains the other one, they are compatible and for an accurate marketing approach, we shall interpret them only together.

It is appreciated that fairs represent a complex marketing tool, which can not be replaced with any other promotional technique. By participating in the fair, the producing company/exhibitor, directly presents its offer and sends information (verbal or using a variety of written or audio-video materials), about: product features; manufacturing technology; way of functioning and of usage or consumption. (Zamfir, 1997)

Also, through the information submitted, it can be pursued the attraction of new clients or to bring into notice through what aspects the offer of a company is different from the competitors offers. In the process of preparing to participate in a fair, the exhibiting company involves and combines all the components of its marketing activity, from selecting the products that are going to be presented at the fair/exhibition, fixing the price or alternatives of prices, choosing the distribution means, conceiving the merchandising at the exhibition's location, editing promotional materials (catalogues, brochures, booklets, etc.), conceiving audio-visual materials, preparation of various actions of promotion at the sale/exhibit place. Participation in exhibition events also represents occasions for gathering information about visitors and competitors behavior, in order to shape a database, needed for the future direction of the activity of all categories of participants.

The purpose of the participation of exhibitors in a fair, is not, for a long time, just selling products or services. The current dimension of a fair, as a marketing tool, includes a variety of actions and benefits for the company, among which we shall mention: meeting and direct communication with a large number of potential business partners, in one place and in a short time, ensuring the premises for developing partnerships, increasing the number of signed contracts and of the volume of sales; launching new products; testing new products; organizing tastings and/or demonstrations of the use and operation of the products; implementation of marketing research into how products are accepted by buyer/consumers; observing their behavior towards their own offer, but also towards the competitors offer; getting information about current and potential competitors, direct or indirect; gathering information about trends in their field of activity, etc. (Constantin, 2014; Zamfir, 1997; Adascalitei, 2003)

Correlated with the aspects listed above, various studies highlight, that in practice, approximately 40% of the marketing budget of a company is allocated for participation in fairs and exhibitions, which comes to underline the importance and effectiveness of using this tool of marketing activity by any exhibiting company (Constantin, 2014). At the same time, inside companies, is emphasized the idea to form an integrated marketing strategy through fairs and exhibitions, starting from educating the conception that fairs can fulfill multiple functions in the

global marketing strategy. It was demonstrated, also through research, that companies participating in fairs based on objectives set by the sales department, are registering weaker results compared to those obtained by companies that address fairs in an integrated way, in marketing strategy. In this context, it can be considered that participation in fairs and exhibitions can be a waste of time and money for companies that are limited to setting goals related to sales. In the same time, the success from participating in a fair depends on how resources are targeted and managed and not especially in the amount of invested resources (Barbu, 2015).

It can be said that for exhibitors, fairs represent a unique opportunity, through which they can use all the marketing tools they have and which they can valorize, in order to ensure their company's success. Due to these issues, which highlight the increasing role of fairs, the decisions related to selecting, preparing and organizing the participation in fairs have passed, currently, in the charge of the marketing department of the company.

Practice shows that, increasingly more, direct communication, face to face dialogue with current and potential partners, became the main advantage of participating in fairs and exhibitions. A good communication in business ensures the increase of sales and the promotion of the image of the exhibiting company. Also, the presence in a fair of the representatives of a producing company (as exhibitors), may represent an opportunity of communicating (to the visitors) the identity, the culture and confidence in that respective brand. With all the performances recorded in information technology, it seems that direct interaction between partners can not be replaced, remaining an asset of fairs and exhibitions (Constantin, 2014). The communication ensured by participating in a fair, represents for exhibitors an exchange of information and news, that can be used in guiding the efficiency of the company's activity. In the same time, direct communication is reflected in the quality of the business relationship, an element that participants at the fairs appreciate more and more (Naumof). We shall also remember that, in the specialty literature is being discussed (since 1983, by the specialist L. Berry) the concept of relationship marketing, as a new approach of relations between business partners (participants in the exchange process), based on high trust and mutual engagement. Relationship marketing expresses a new way of thinking in marketing and is considered to be comprised of a variety of relationships, networks and interactions, through which is aimed creating, maintaining and developing the relationships with business partners (Popescu, 2003). Regarding this approach, we believe attending fairs contributes to the development of relationship marketing and increases business success.

#### **4. The influence of the technical progress on fairs and exhibitions**

The ways of organizing exhibition events are in a continuous process of evolution, determined by the outcome of technical progress in all activity fields. The prestigious exhibition centers are, nowadays, modern, imposing buildings, that have advanced technical endowments, capable of ensuring the best conditions of exhibit and product presentation and of offering the possibility of effective communication to attain the objectives pursued by each category of participants. The appearance of the Internet and the increased need to obtain more quickly, accurate information, for taking decisions, in a very dynamic environment, are the main factors that have generated the concern to create virtual fairs and exhibitions. It is believed that virtual events are designed to provide online information about the products and services of exhibitors. Most often, they can be linked with real events, but they can also be active after closing the real event, for periods of several months (Stoica and Rosu, 2010). Online events can be considered complementary or extensions of traditional events, that bring benefits due to the specific advantages they offer to both visitors and exhibitors. Thus, online events can be visited at any moment of the day, from any location, without travelling, giving the opportunity to see the entire event (fair/exhibition), people being able to participate in demonstrations/products testing and to communicate with exhibitors. In the same time, exhibitors can participate in a unlimited number of online events, permanently updating the information provided. It also eliminates the constraint of participants selection, present in the traditional events, due to the level of costs. (Stoica and Rosu, 2010).

We believe that the fear, that participation in traditional events may decrease, as extending the organization of online-events, is groundless. The reality shows that the organization of virtual fairs and exhibitions constitutes a common practice currently, in US, extending in countries in the

western Europe. It is confirmed the opinion of some specialists that online events are complementary and that they support traditional events. In Romania, online events are, for now, relatively narrowed. Few organizers understand or have the capability to be involved in such events.

## 5. Conclusions

Fairs and exhibitions have been assimilated by the science and the marketing practice as distinct promotional techniques. Regarding fairs, they have emerged as expressions of the exchange of goods and time have demonstrated their ability to mix the selling function with the communication function, becoming (together with the exhibitions) a complex marketing tool.

Without communication no company can exist in the nowadays business environment. From this reason, companies have become more concerned to invest in people who are able to promote the activity of the company and to develop the relationship with customers and other business partners. The reality highlights the increasing interest of companies to participate in fairs and exhibitions, understanding the advantages they can obtain using this marketing tool.

It is expected that the process of evolution of fairs, in terms of forms, methods and techniques of organization and development, will continue, being conditioned by the technical progress and by the concern of participants to realize, as well as they can, the objectives pursued.

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# Challenges of Hotel Branding. An Overview of the Romanian Seaside Hotel Industry

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## Abstract

*Brands have well-known advantages for companies, from ensuring product differentiation to the much appraised and hard to gain brand loyalty.*

*Due to the particular features of services, service branding requires specific attention, and although it was given less consideration than product branding in the dedicated literature, during the past years a certain amount of attention was also bestowed on service branding.*

*The highly competitive environment of hotel industry has claimed use of brands and brands have become vital to their marketing strategies. In the hotel industry, brands have become quality cues and have gained their place among the factors the purchase decision is based on.*

*The paper is aimed at presenting several facets of branding in the hotel industry, and at briefly asserting the current state and challenges faced by the Romanian Seaside hotel industry related to branding.*

**Key words:** branding, hotel industry, Romania

**J.E.L. classification:** M31

## 1. Introduction

According to the American Marketing Association, a brand is a "name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers" (American Marketing Association).

The advantages of a strong brand include product differentiation which may lead to repeat purchases and increased financial performance, a smoother introduction of new products based on the customer familiarization with the brand, an augmented effectiveness of promotion, and ultimately, the much appraised brand loyalty.

Due to the particular traits of services (intangibility, overlapping of production and consumption, variability, close dependence with the person producing/delivering the service) branding in the service sector acquires rather complex facets and raises various issues for brand management. At the same time, while branding for tangible products has received a great deal of attention from both practitioners and academics, branding for services has been given considerably less attention. It has been acknowledged though that service brand names may be quality cues, considering that service purchases are perceived by consumers as involving greater risks than tangible goods purchases. Although in the branding dedicated literature service branding remains rather the *poor cousin*, with much effort and consideration awarded to tangible goods branding, during the past years, attention has been dedicated also to the implications and issues of service branding. Moreover, it has been asserted that consumers may be more brand loyal with services than with products, since changing brands of services may prove more costly, awareness of substitutes is limited, higher risks may be associated with services, and last but not least, it may lead to maximization of customer satisfaction due to seller gaining knowledge of customer's tastes and preferences (Zeithaml *et al*, 2006, pp.68-69).

In the highly competitive environment of the hotel industry, brands become vital elements used by brand managers in order to attract and maintain customers, and an appropriate branding strategy

can make a difference. It has been acknowledged that customer perception of a hotel's brand name influences their hotel-stay decision (Jiang *et al.*, 2002, p.5).

However, creating a suitable branding strategy can prove to be rather challenging and this is the case for the Romanian seaside hotel industry, where only a small number of hotels can claim that they have implemented a coherent and sustainable branding strategy.

In this paper, there will be presented several general considerations regarding branding in the hotel industry, followed by the portraying of the main challenges faced by the hotel industry on the Romanian Seaside as far as branding is concerned.

## **2. Branding in the Hotel Industry – General Considerations**

In the hotel industry, branding encompasses great significance both from the point of view of the marketer, being one of the pillars sustaining the marketing strategy, and from the point of view of the consumers, as it is regarded as a quality cue.

Branding is considered as one of the dominant trends in the global hotel industry. Brand penetration in the ratio of branded vs. non-branded properties is over 70% in the commercial lodging industry in USA, in Canada it is just under 40%; and in Europe it is under 25% but growing. Moreover, branded hotels tend to outperform comparable non-affiliated properties in most markets according to performance indicators (Forgacs, 2014).

The main factors describing the significance of branding in tourism include: the positive image of established names which crosses national borders, the perspective for repeat business which is an important source of income, the importance of brand recognition in a dynamic environment with a high rate of new brands introduction, the impact of brand choice on marketing mix strategies, and the possibility to gain brand loyalty, given that customer loyalty in tourism is difficult to establish (Moutinho, 2000, pp.144-145).

In the highly competitive market of the hotel industry a recognized and well-established brand may become a critical competitive advantage. Should one take into account also the higher risk perceived by consumers in the case of service purchases, the costs, and the more cautious attitude generated by economic constraints, branding becomes a central pillar of marketing strategy.

While the advantages of strong brands in the hotel industry for both companies and consumers cannot be denied (brands help customers identify services, they become synonymous with a certain quality level, contribute to company image creation, enable visibility and prestige, help customers make fewer price comparisons, contribute to diminish customer's perceived risk, facilitates new market entry and market segmentation, contribute to building up company market position), creating and managing strong brands in the industry proves to be a demanding endeavour. Due to the particular features of services, branding requires association with the tangible components, such as people producing or being related to the service (Cravens and Piercy, 2006, p.266).

Another challenge in service branding relates to the idea that if in the case of tangible goods, the product is the primary brand, in services the company becomes the primary brand (Berry, 2000, p.128).

The service brand is more than a name; it represents an intrinsic part of the company image and plays an important role in establishing the uniqueness of the company image. Moreover, a different light is casted on building company image in service industries due to the increased significance of word of mouth advertising (Moutinho, 2000, p.146).

In the hotel industry brands become a strong liaison between company and customer, and eventually brand represents the consumer's experience with its organization (O'Neill and Mattila, 2010, p.28). Under these circumstances, it is only natural to assume that companies strive to improve customer experience up to the point where they become memorable (Gilmore and Pine, 2002 in O'Neill and Mattila, 2010, p.28).

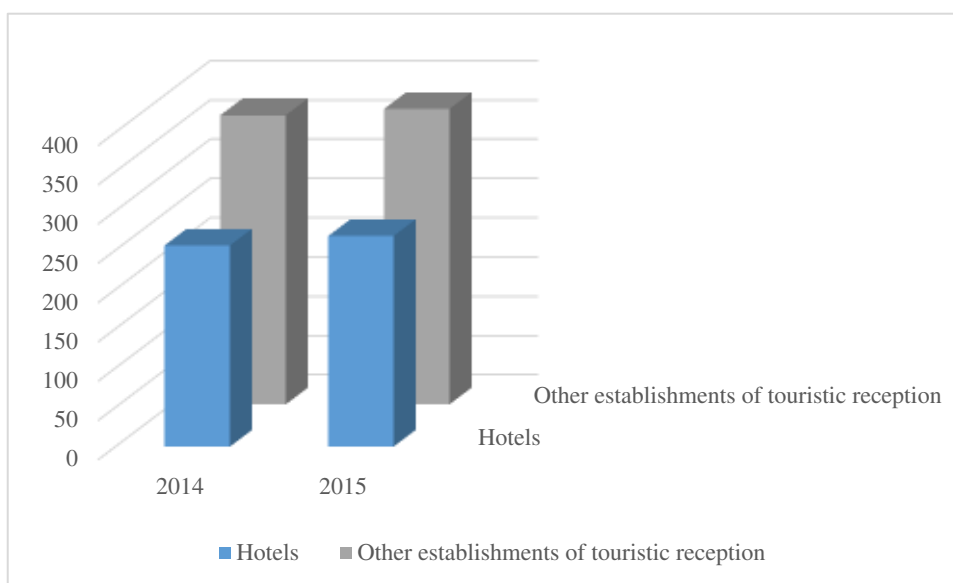


### 3. The Romanian Seaside Hotel Industry - Challenges for Hotel Branding

According to the Romanian Statistical Yearbook 2015 (p.643), in 2014 the establishments of touristic reception with functions of touristic accommodation on the seaside accounted for 11.25% of the total establishments at national level, while the existing capacity accounted for 26.86% of the total national existing capacity.

From the total number of establishments of touristic reception with functions of touristic accommodation on the seaside, hotels however represent less than a half (approximately 41% both in 2014 and 2015, as may be observed in Figure 1). The other establishments include hostels, campings and houselet-type units, touristic villas and bungalows, touristic boarding houses, touristic halting places, and school and pre-school camps. One can effortlessly assume that most of the above mentioned establishments do not have an actual marketing strategy, but instead use a small (if any) number of disparate marketing tools, focused on promotion.

Figure 1. Hotels and other establishments of touristic reception with functions of touristic accommodation on the Seaside



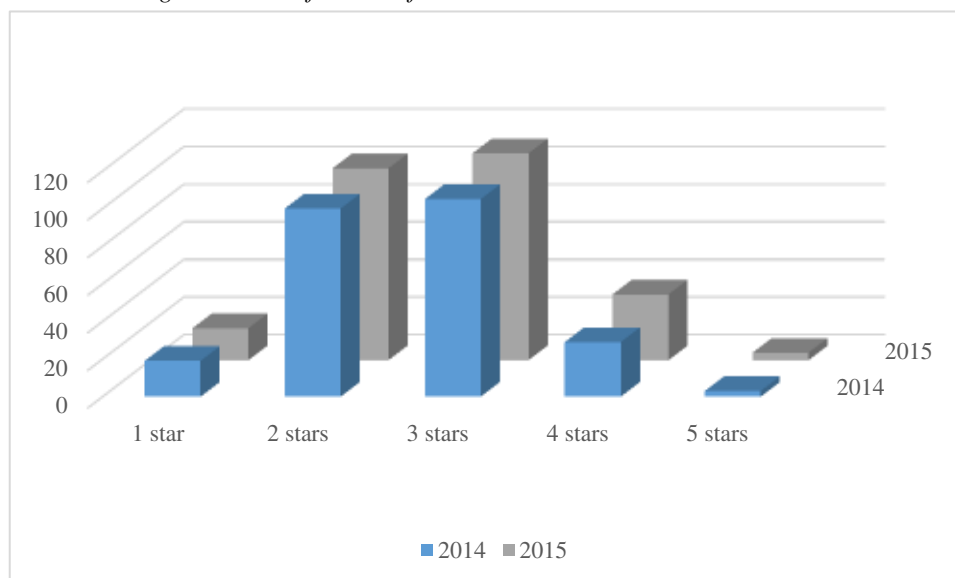
Source: (Calculated based on data provided by the County Statistical Directorate – Constanta, 2016)

\*Note: Only establishments of touristic reception with functions of touristic accommodation located in the Seaside tourist resorts according to the national legislation

Most hotels located on the Romanian Seaside, that is approximately 80%, are two and three star hotels, and less than 2% are five star hotels (Figure 2). The very reduced number of high-end hotels and the large number of low rated hotels give further hints toward the incipient stage of hotel branding in the Seaside hotel industry.

Moreover, only 1% of the hotels fall under the heading of international hotel chain brand names.

Figure 2. Classification of hotels on the Seaside in 2014 and 2015



Source: (Calculated based on data provided by the County Statistical Directorate – Constanta, 2016)

\*Note: Only hotels located in the Seaside tourist resorts according to the national legislation

Among managers in the industry, the perception of the utility of marketing is different. At one end, and that is unfortunately still the case of many hotels, a crucial issue is the lack of awareness regarding the importance of developing a coherent marketing strategy and subsequently a branding strategy; a considerable number of hotels do not even have a marketing department. Instead, the upper management is still blissfully unaware of the benefits they can obtain by transforming their “one time customers” in “regular customers” through brand loyalty. Alternatively, they focus on sales and strongly rely on tourism agencies and hotel booking websites.

At the other end, there are the hoteliers that have accepted the importance of marketing and of developing medium and long term marketing strategies, but are confronted in their endeavour with other difficulties. One such difficulty refers to financial constraints. The development of a brand takes time, effort and involves costs, some more substantial than others, from the creation of a suitable brand name, to its registration with the State Office for Inventions and Trademarks, to building a strong branding strategy, and durable brand management. Not to mention that they would also need marketing managers or independent consultants able to complete the task.

Acknowledging the role of quality cues played by brands, another difficulty to face is that of ensuring and communicating an adequate and constant level of quality for the delivered services. The quality of tourism services in Romania is an over-debated subject, but unfortunately many times with a negative connotation. In direct relation to service quality there is the issue of human resources involved in production and delivery of service. The very short tourist season, in the recent years of less than two months (from mid of July to the end of August), has put extreme pressure on the industry to find and retain qualified personnel. And that is probably one of the most important challenges faced by the industry in the attempt at branding – human resources are an intrinsic part of the service, and service brands are closely associated with people producing/delivering the service. On the other hand, from the point of view of the consumer, brand perception is dependent on tourist experience; the reduced length of the tourist season translates into several unpleasant consequences for the tourist, unrelated to the hotel services *per se* – from the congested traffic, to the overcrowded parking lots, attraction sites, restaurants, and beaches.

One also has to admit that in building hotel brands, the managers do not benefit from the support of a strong destination brand. The Seaside resorts are associated with more or less attractive attributes for different segments of consumers, but that is far from what destination branding should stand for.

#### 4. Conclusions

Brands encompass numerous and obvious advantages for companies and are extremely useful tools in the development of marketing strategies. That is also the case in the hotel industry, where brands contribute to company image creation, increasing its visibility and authority, facilitate new market entry and market segmentation, contribute to building up company market position, and eventually to increase revenues. The present paper aimed at reviewing the most relevant challenges faced by the industry in creating and managing brands, and at briefly presenting the critical aspects the hotel industry on the Romanian Seaside is confronted with, regarding hotel branding. The most striking matter regarding the Romanian Seaside hotel industry is the astonishingly reduced number of international hotel chain brands and the high share of one and two stars rated hotels. Furthermore, notable issues refer to the lack of awareness as to the potential benefits of strong brands, the low interest for developing coherent and sustainable marketing strategies, while confronted with the inherent downsides of seasonal activity.

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## Few Considerations On Brand Loyalty and Equity

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### Abstract

*Considered as one of the most pregnant way to identify a product, a service or an organization, through specific communication means, the brand has an important role in the process of personalizing and sustaining the image of products, services or organizations.*

*The brand is the essence of products and services and the key to express the market success. A powerful brand has a strong position in the consumers' minds and can be considered a key point between the consumers' first preference and choice (when they decide to buy a product) and the high and constant level of quality of that product.*

*What is more, this connection can be created by fulfilling the company's promises that the offer's level of quality will be maintained and even increased over a long period of time.*

*The success of a brand is assured by maintaining the consumers' loyalty, and the consumers' trust and loyalty will increase the brand equity.*

*The aim of this paper is to present a few theoretical aspects concerning the concepts of brand loyalty and equity.*

**Key words:** marketing, brands, image, loyalty, equity

**J.E.L. classification:** M31

### 1. Introduction

The key for a successful brand story is linked to a proper management process of creating, maintaining and increasing the brand's image in the consumers' mind. For some brand specialists, marketing is branding and the essence of a marketing process is building a brand in buyers' mind (Ries *et al*, 2003, pp. 8,11).

To gain value, a brand must not only be successfully launched on the target market, but must also maintain the same identity and image in the consumers' mind.

It is not enough for marketers to build a brand, but it is also more difficult to maintain the customers' loyalty for that brand. For any economic organization the challenge is keeping its consumers' fidelity, despite all competitors' promises for better offers.

The companies where the management designs a clear frame and direction for strategic and operational brand decisions can dominate the competition and can occupy a significant market share.

### 2. Product, brand, image

Each great brand is a promise that is done by an enterprise for its clients. Every product that is sold is expressed by its brand and the image of the product is the image of the brand. Products gain identity through their brands and the brands sell products. Along with a product, consumers buy the brand under which that product is offered. The brand is the tool that often sells the product, gives identity to the product, and, in the same time, expresses this identity; the brand name will suggest the image of the product (Popescu, 2003, p. 162).

In the marketing specialists' opinion, a brand is a name, a sign, a symbol, a drawing or any combination of these elements, and helps to identify the offer of an organization, in order to be differentiated from the competitors' offer (Balaure *et al*, 1994, p. 102).

A brand carries out several functions: ownership of products or organizations, identifying the products, recognizing and differentiating products, certifying the products' or services' quality, certifying the products' source etc. (Balaure *et al*, 2002, pp. 102-103).

Some marketing specialists consider that "...a brand can be represented as a network of thoughts or associations in consumer memory" (Tybout *et al*, 2010, p. 115).

A successful brand building program must be elaborated on the principles of differentiation and singularity of this brand (Ries *et al*, 2003, p. 14). A brand must be perceived in the consumers' mind as unique, which means that this product is not alike to any other products from the market.

The distinctiveness is a very important key to make a brand different from other competitive brands.

### **3. Brand loyalty**

People are attached not only to different people, but also to different things. We buy food, clothes, cars or devices because we like them, or we consider them better than the others, or our friends or relatives recommend these objects. But, in essence, what makes us buy and use, in a repeated way, these things? What intimate mechanism creates the desire to have a certain thing or gives us the impulse to buy a certain brand, from a large group of brands?

Or, more than that, what is the reason for buying the same brand of product or service, even while knowing that there are similar products and services, from the point of view of their quality?

There are opinions that consider the idea that, in a metaphoric way, our brain mostly chooses brands by following an algorithm. This algorithm cannot be influenced by the marketers, but can be used to structure and concentrate their branding efforts in such a way that allows to maximize the chance to choose their brand (Walvis, 2010, pp. 10-11).

Specialists consider that brand loyalty is "...the strength of preference for a brand, compared to competing brands, sometimes measured in repeat purchases" (Neumeier, 2006, p. 162).

It is very difficult to measure or to indicate the consumers' loyalty for a brand.

In other marketing specialists' opinion, the brand loyalty reflects the probability that a buyer chooses another brand, especially when its price or some of its tangible attributes are modified, and strongly relies on the evolution of product sales and benefits. Based on the same opinion, there are several ways to measure the consumers' loyalty (Cătoiu *et al*, 2004, pp. 147,149-150): by taking into consideration the configuration of the buying process (re-buying ratio, the acquisitions' percentage, the number of bought brands), by analyzing the cost generated by switching the brands, by measuring the customers' satisfaction or nonsatisfaction generated by a brand, by considering the customers' preference (affection) for a brand.

In the opinion of marketing specialist Philip Kotler, a strong brand is, in fact, a group of loyal buyers, and it is very important for marketers to take into consideration, in their planning process, how to increase the buyers' loyalty over a long period of time (Kotler, 1997, p. 561).

### **4. Brand equity**

As one of the most valuable assets of a company, the brand has the mission to gain consumers, under the condition that the brand respects its promises. Philip Kotler considers that the distinguished sign of a remarkable brand is how much loyalty can be acquired by that brand (Kotler, 2004, p. 109). In the same paper, he underlines the idea that the brand is a contract between the firm and the client that refers to the way that brand can fulfill its obligations.

A brand's value can be approached based on consumers' perception of a brand (what is in the consumer's mind), or in a financial way (based on the costs with brand creation or developing costs).

A brand is valuable when it can be associated with scenes of our life, with our professional or social activities, when it can express who we are, or what kind of life we have. When all these associations are present in the consumers' minds, one can talk about brand equity.

David Aaker developed in the early '90s a conceptual model that defines brand equity and describes how it generates value (Aaker, 2016). In concordance with his opinion, the brand equity is a set of brand assets and liabilities linked to a brand name or symbol, that can add or can subtract from the value provided by a product or service, and that has four dimensions: brand loyalty, brand awareness, brand associations, and perceived quality, to which other proprietary brand assets were added (trademark, patents etc.).

The concept of brand equity is more and more present in managers' preoccupations, because a most marketing specialists consider that the most significant marketing battle is actually linked to the battle of the brands.

In the marketing specialists' opinion, consumers' behavior is strongly attached to brand equity, and, although the assets and the liabilities that are defining a brand equity may differ from a situation to another, in general, each component of the brand equity has an important impact on the buyers' behavior, in the following way (Cătoiș et al, 2004, pp. 146-162): 1) the brand loyalty is created after a product is bought and the consumer has gained some experience in using it. The brand loyalty can be approached in a behavioral manner (the customers' tendency to buy a brand in a repeated and regular way), and in a cognitive manner (from the perspective of customer attitude for a brand's acquisition); 2) the brand awareness is the ability of a potential buyer to recognize or to remember a brand from a category of products. Like in a pyramid, on the first level there are brands that cannot be recognized by the buyers, and, on the highest level, there are brands that are firstly mentioned in an unsuggested recall test; 3) the perceived quality is the buyer's perception considering the global quality or the superiority of a product or service compared to its expectations and the competitors' offers; 4) the brand associations are represented by all the connections that exist in the customer's mind, linked to a certain brand, associations that can have different levels of intensity and that can generate the buying reasons; 5) other proprietary brand assets, such as trademark, patents, the distribution channels' relationships etc., that are very important because they can be controlled by a brand, due to its previous performances.

All these elements are strongly related with the buyers' behavior, because they help the buyers to interpret, to process and to store a lot of information about products, services or brands, and through the experience obtained in time, can increase or decrease the consumers' trust and satisfaction.

A famous brand, strongly anchored in consumers' mind by a favorable experience along the time, can survive even in difficult moments of time, caused by different reasons (economic crises, technological problems, inadequate strategic management etc.). For example, in 2016, January-March period, the Volkswagen's sales were increased with 0.8% (up to 2,5 million of units), compared to the same period last year, even though the company is experiencing one of the most difficult crisis in its history (Știri-digi24, 2016). This means that, even with the troubles caused by using an environmental inadequate technology, the people's trust in the Volkswagen brand quality is still strong.

In time, from one case to another, the importance of each component of the brand equity model can be different.

As a result of their presence or intensity, some brands can become powerful while other brands can become weak. For example, in the 2015 edition of the Superbrands study conducted by BDR Associates, concerning the Superbrands in Romania (BDR being the company that has conducted the Superbrands study in Romania for 10 years), the researchers considered that, from the elements that help a brand develop into a Superbrand (a more powerful brand than the others, that can have the ability to provide strong emotional and functional benefits for people), the first element is the quality (Sebesi, 2016, pp. 8-13). The other relevant dimensions for the research were the reliability (the brand's capability to always keep its promises in a consistent way), and the distinctiveness. Taking into consideration the Romanian cultural, social and economic specific context, the results of the study show that there are three important dimensions that define a Superbrand on the local market, and these are: leadership, trust and dynamism. A leadership brand is easily recognized, and stands out from the rest of the brands through both emotional and functional aspects. Trust refers to the idea of assuring that the products and services are constantly delivered at a high quality level, concordant with the promises stated. Dynamism is strongly associated with the idea of constantly innovating products, or certain material and immaterial elements of products.

From a financial perspective, the brand is an intangible asset, that generates value for companies. There are several brand ranking companies such as: Interbrand, MillwardBrown and European Brand Institute, that develops their own brand valuation methods.

## 5. Conclusions

The brand is one of the most important assets from any organization.

A strong brand can represent the key element for a market-leading position, and when it is built within a strategic, well-founded process, it can allow the achievement and maintenance of a successful business, over a long period of time.

The majority of the powerful, market-leading companies do not necessarily sell products or services, but instead they actually sell brands that represent well known images among the vast majority of consumers. Through an appropriate policy in the brand area, the companies that act on the market can achieve advantageous positions and can dominate the competition, by gaining the consumers' trust and loyalty.

Although a consensus regarding the processes and actions that can attract or assure the consumers' loyalty towards a brand has not been agreed upon yet, in the marketing literature there is the idea that the brand fidelity is strongly linked to the consumer's fondness to that certain brand, and to the act of repeatedly and relatively constantly buying that certain brand, against the products or services offered by the competition.

Brand loyalty is strongly linked to the sales trend of a product and is an important component of brand equity.

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## Assessing the Organizational Culture of Local Organizations

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### Abstract

*Within this paper, we aim at presenting some of the results of an extensive research conducted during the Doctoral School, on the analysis of the impact that the knowledge-based economy has on organizational performance.*

*The quantitative investigation was conducted based on an assessment questionnaire addressed to the employees from all hierarchical levels, in Romanian companies, mostly from the South-East of the country. The questionnaire’s statements were aimed at the assessment of the extent to which local organizations apply the features of the knowledge-based economy and organization.*

*Within this work, we will disseminate the research results regarding the extent to which Romanian companies practice an organizational culture focused on creating a pleasant working environment. In a subsequent paper, we will also present the impact of the application of such a culture on organizational performance.*

**Key words:** knowledge-based organization, organizational culture, organizational performance

**J.E.L. classification:** D83

### 1. Introduction

The concept of organizational culture refers to everything related to the standards of collective thinking, attitudes, values, beliefs, rules and habits that develop within the organization and guide its members’ conduct, in order to fulfill their tasks and to achieve the organization’s objectives. In fact, the organizational culture is an important part of management culture, and the latter refers to the system of values, beliefs, aspirations, management styles and managers’ behaviors practiced within the organization (Collins, 2007, p.57).

In knowledge-based organizations, there is shaped an organizational culture specific to the treatment of knowledge, namely the knowledge-based organizational culture (Nicolescu *et. all*, 2005, p. 381.), which represents all values, beliefs, aspirations and behaviors whose common denominator is the treatment of knowledge that influence directly and indirectly the functionality and performance of the knowledge-based organization.

The knowledge-based organizational culture has several defining features ((Nicolescu *et. all*, 2011, pp.383-384.):

- places people and knowledge (and not the material elements) in the foreground;
- focuses on the employees’ intense participation in decision-making;
- focuses on collaboration and cooperation among knowledge-based specialists;
- focuses on customer satisfaction;
- is receptive to news and favors innovation in all the company’s activity areas;
- is incentive to risk-taking and tolerant to errors and failures, particularly in innovation processes;
- is centered on individual and organizational learning and supports knowledge sharing.



## 2. Research methodology

In order to assess organizational culture, we made a number of statements, as shown in Table 2, with the intention to analyze the extent to which local employees know and identify themselves with the vision and values of company they work for, the extent to which they are respected and trusted by their leaders.

The items have five possible answers, using the Likert scale, i.e. the attitude scale used in a survey. The Likert scale is an ordinal scale; it has five gradations (strongly disagree, disagree, indifferent, agree, strongly agree) and indicates the intensity of the subject’s agreement or disagreement on a particular statement or characteristic.

In order to ensure a proper representation of the organizations investigated, their selection was random, on a voluntary basis. 350 questionnaires have been distributed, both electronically and in printed format. This sample size allowed the establishment of a statistically relevant database.

The data were organized into a *database* for processing and analysis. Incomplete or wrongly filled in questionnaires (i.e. 17 questionnaires) were eliminated; in the end, there were 318 valid questionnaires, wherefrom we retrieved and interpreted the data.

The items that made up the survey had been formulated in order to meet the variables that constituted the characteristics of the organization, namely of the knowledge-based economy. The items were formulated as statements describing the opinions of the employees from all hierarchical levels, on matters pertaining to their organizations. Each statement contributed to the calculation of the variable to which it belongs. For example, statements A1, A2, A3, A4, A5, A6, A7 and A26 from the questionnaire contributed to the calculation of the variable "organizational culture, focused on creating a pleasant working environment, characterized by a relaxed atmosphere".

In order to calculate the score for each statement, there were given scores in the range [-2, +2], depending on the answer, -2 representing the minimum value and +2 – the maximum value. In order to get scores (means) for each statement, we weighted each answer to the statement (from -2 to +2) with the number of the respondents for each answer, and then we divided it by the total number of respondents, resulting in a weighted mean, as in the following example:

*Table no. 1 - Example of calculating the mean for each statement, and the score calculation*

1. You are acquainted with the vision and the values of the organization to which you belong and they are in harmony with your vision and values.	-2 strongly disagree	-1 disagree	0 indifferent	1 agree	2 strongly agree	Average of the assessment
Number of respondents	0	6	72	120	120	1,113208

Source: Own processing

Calculation method of the score:

$$[(-2) * 0 + (-1) * 6 + (0) * 72 + (1) * 120 + (2) * 120] / 318 = 1,1132$$

According to this calculation method, for the statements on organizational culture assessment, we obtained the following situation, presented in table no. 2.

Table no. 2 - Assessment of the organizational culture in local organizations.

STATEMENT	Statement mean
1. You are acquainted with the vision and the values of the organization to which you belong and they are in harmony with your vision and values.	1.113208
2. You are guided in the company's procedures and regulations (e.g. Rules of procedure, rules of organization and operation etc.) and order and discipline are its core values.	1.207547
3. Top managers respect the employees and trust them and they are involved in the decision-making process across the organization.	0.886792
4. The organization treats employees as "workforce" whose time and energy are available to those with higher positions in the hierarchy.	-0.0566
5. My work environment is pleasant, characterized by a relaxed atmosphere.	1.188679
6. The attention paid by managers to fairness and ethical behavior is stronger than the concern for reducing costs and increasing revenues.	0.207547
7. Honesty, fairness, integrity and transparency are values promoted by the organization.	1.056604
26. Mistakes are tolerated by managers, being considered inherent during learning.	0.00
<b>SCORE OF THE VARIABLE ORGANIZATIONAL CULTURE</b>	<b>0.700472</b>

Source: Own processing

### 3. Research results

Analyzing the variable organizational culture, we notice that the highest score was obtained by the statement on the knowledge of the organization's rules and values, i.e. 1.207 out of maximum 2. This score reveals the fact that the employees are acquainted with the rules for the organization and operation of their company, they comply with the provisions of these regulations, and the managers are responsible for the order and discipline within the organization.

A score close to that outlined above, namely 1.113 was obtained by the statement on the employees' knowledge about the organization's vision and values. This score shows two aspects: first, those surveyed believe that the company's vision and values are identified largely with their own system of values; second, the organization's management believes that it is important for employees to know and be reflected in the company's vision and values, in order to achieve the organizational objectives, promoting values such as honesty, fairness, integrity and transparency. This situation is also supported by the score of statement 7, i.e. 1.056.

Local managers are oriented towards performance achievement, in the same way that they are interested in adopting an ethical behavior within the organization and they are not very tolerant of faults, fact revealed by the score of statement 6, i.e. -0.207, and of statement 26.

It is evident from the scores of statements 3, 4, and 5 that, between management and the executive, there is a minimum of respect and trust, which leads to a working atmosphere favorable to the achievement of organizational goals. However, the involvement of the executive in decision-making, a feature of the knowledge-based organization, is relatively low if we look at the score of statement 3, i.e. 0.886. Although efforts are being made in the direction of change, the characteristics of traditional management forms are still deeply rooted.

The total score of the variable organizational culture is 0.700, above the neutral value. It is a positive result, which shows the small but important steps made by the managers of local organizations towards inculcating within the organization an open culture, where the employee is reflected in the organizational values, goals and decisions.

For the data series related to the studied variables, we used the descriptive statistical analysis and we calculated the following indicators (Codirlaşu *et. all*, 2008, pp.5-6):

- Mean (the arithmetic mean calculated as the sum of the observations divided by the number of observations). If the data series related to the variable is normally distributed, the mean indicates the middle of the range between minimum and maximum (the distribution range of data).

- Standard Deviation (it is a measure of the dispersion of observations) shows the root mean square deviation from the arithmetic mean of variable values. If it has a low value, then the data vary slightly around the mean.

- Kurtosis measures the tailedness of a distribution compared to a normal distribution. Kurtosis is zero for a series of data with a normal distribution; it is positive for a series of heavy-

tailed data relative to a normal distribution, and negative for a series of light-tailed data relative to a normal distribution.

➤ Skewness is the asymmetry coefficient measuring the lack of symmetry in the distribution of data series relative to its mean. The asymmetry measures the deviation from the symmetrical layout and the (positive or negative) asymmetry direction relative to the normal curve. Skewness is 0 for a series of data with a normal distribution; it is negative for a number of data asymmetrical on the left (the series has smaller values); it is positive for a data series asymmetrical on the right (the series has higher values).

Tab. nr. 3 - Descriptive statistical analysis of the analyzed variable

	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic
A1	-1	2	1.113208	0.817638	-0.42068	-0.83864
A2	-1	2	1.207547	0.899179	-0.89265	-0.13257
A3	-1	2	0.886792	0.966186	-0.53159	-0.66465
A4	-2	2	-0.0566	1.252104	-0.24185	-1.11558
A5	-2	2	1.188679	0.954285	-1.17457	1.067414
A6	-2	2	0.207547	1.140455	-0.02902	-0.89613
A7	-2	2	1.056604	1.124689	-0.91522	-0.31381
A26	-2	2	0.00	1.16738	-0.14367	-0.78515

Source: Own processing

In the table above, there are detailed the results of the descriptive statistical analysis of the variable organizational culture. The first two columns show the minimum and, respectively, the maximum values for the statements allocated to the variable analyzed. It is noteworthy that some statements recorded values between -1 and +2 (such as statements 1, 2, 3), while other statements recorded values between -2 and +2 (such as statements 4, 5, 6, 7, 26). The third column of the table shows the mean obtained by weighting the 318 answers to the score given by each respondent to the respective statement. This mean contributed to the score of the variable organizational culture, i.e. 0.700.

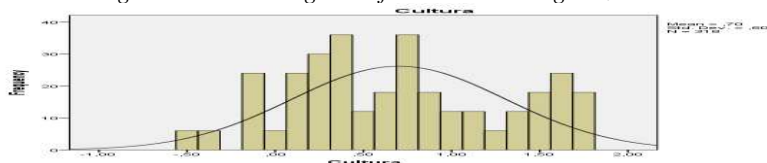
The next column shows the standard deviation and it reveals the root mean square deviation from the arithmetic mean of the variable values. If it has a low value, then the data vary slightly around the mean.

All series present a negative asymmetry (or towards the left), due to the Skewness coefficient < 0. The left asymmetry occurs when the variable values – smaller than the average level – have high frequencies.

The data series are light-tailed, as evidenced by the negative kurtosis coefficient, except for the statement on the environment and atmosphere of the workplace, where the kurtosis is positive, which means that the data set is heavy-tailed relative to the normal distribution.

In the performed descriptive statistical analysis, we generated histograms for each variable. Histograms reflect the summary of the descriptive statistical analysis, plotting the distributions of the values of the analyzed variable.

Figure no.1 – Histogram of the variable organizational culture



Source: Own processing

#### 4. Conclusion

The total score of the variable organizational culture is 0.700, hovering above the neutral value. This is a positive result, which shows the small but important steps made by the management of local organizations towards inculcating an open culture within the organization, where the employee is reflected in the organizational values, goals and decisions.

The organizational culture is an essential and indispensable element to the organizational progress, one of the factors that determine business performance and organizational success (Blanchard, 2010, 195). The economic globalization and the knowledge revolution triggered new ways of organizing human activity. The fast pace of change in ICT required shaping new practices, methods and action tools within the organization, based predominantly on information and communication rather than on control and administrative hierarchy.

Organizations identify and differentiate from other organizations by their values, beliefs and practices, which lead them to achieve competitive advantage.

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## **Is There a Positive Correlation between the Organizational Culture, Focused on Creating a Pleasant Working Environment and Organizational Performance?**

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### **Abstract**

*This paper is a continuation of a previous work, where we analyzed the extent to which Romanian companies practice an organizational culture, focused on creating a pleasant working environment. Thus, continuing the dissemination of the research results conducted during the Doctoral School, within this paper, we will check if there is a positive correlation between the organizational culture focused on creating a pleasant working environment and organizational performance.*

*Before confirming or rejecting this hypothesis, we will assess, as in the previous work, the organizational performance by processing the data gathered within the quantitative investigations conducted based on the questionnaire addressed to the employees from all hierarchical levels, in Romanian companies, mainly from the South-East of the country. The questionnaire’s statements aim at the assessment of the extent to which local organizations comply with the characteristics of the knowledge-based economy and organization.*

**Key words:** knowledge-based organization, organizational culture, organizational performance  
**J.E.L. classification:** D83

### **1. Introduction**

Performance is a state of the entity’s competitiveness, reached through a level of effectiveness - efficiency - economy, which ensures a sustainable market presence. (Albu, 2008, p.64). In order to achieve performance, we must establish, from the beginning, what we want to achieve and in what circumstances, a clear definition of the route to be followed and of the necessary resources, as well as a strong motivation to achieve performance.(Collins *el all.* 2006, p. 46)

Studying the organizations’ performance implies analyzing its behavior; moreover, it is noteworthy that performance improvement can be triggered only by behavior improvement. It is clear that a key role in achieving performance is played by the entity’s management. (Collins, 2007, p. 67) The performance of the knowledge-based organization is underlined by all the knowledge-based employees plus the knowledge-based specialists from outside the company, who are strongly integrated in the company’s activities of sales, distribution and supply.

### **2. Research methodology**

The research methodology of organizational performance is similar to the one used for the assessment of organizational culture, presented in the previous work. In this respect, there were formulated a number of statements in the questionnaire, in order to assess the performance of Romanian organizations, using the Likert scale. We introduced and centralized the valid questionnaires into a database that has accumulated 318 valid answers.

We chose to analyze the organizational performance through a series of statements on three basic parameters: customer satisfaction (statements 43-45 of the questionnaire), the employees’ fulfillment and dedication to work (statements 46-49 of the questionnaire) and financial

performance (statements 50-52 of the questionnaire).

In order to calculate the score for each statement, there were given scores in the range [-2, +2], depending on the answer, -2 representing the minimum value and +2 – the maximum one. In order to get scores (means) for each statement, we weighted each answer to the statement (from -2 to +2) with the number of the respondents for each answer, and then we divided it by the total number of respondents, i.e. 318, achieving a weighted mean.

Following this calculation method, in terms of the statements for assessing organizational performance, we obtained the following situation, presented in table no. 1.

*Table no. 1 – Assessing the performance of local organizations*

STATEMENT	Statement mean
43. The organization offers its clients services of high quality standards, because their satisfaction is a major concern of the organization.	1.283019
44. The organization carries out market research activities in order to become acquainted with the clients' needs and to improve the quality of its services and products.	0.792453
45. The organization manages rapidly and efficiently the customers' complaints.	0.962264
46. The employees' satisfaction with their job (activities, responsibilities, relationships, incentives) is a major concern of the organization.	0.301887
47. All employees are concerned with the organization's profitability/ effectiveness and cooperate in order to achieve the organization's objectives.	0.603774
48. You feel fulfilled at your present workplace.	0.811321
49. There is respect and trust between employees and managers.	1
50. The company's financial evolution is positive.	0.849057
51. Te number of clients and of the contracts concluded with them is increasing.	0.773585
52. Recently, the organization has made significant investments (for example, in renewing the portfolio of fixed tangible assets, i.e. buildings, lands, equipment etc., and intangible assets, i.e. patents, software, licenses etc.)	0.264151
SCORE OF THE VARIABLE ORGANIZATIONAL PERFORMANCE	0.764151

*Source: Own processing*

### 3. Research results

**Customer satisfaction** requires knowledge of the customer's wishes and their satisfaction, acquiring customers' loyalty through the quality of products or services and their superiority over those of the competitors, the organization's responsiveness to the ever-changing customer needs. Statements 43, 44, 45, related to the assessment of the customer satisfaction, for the organizations studied, achieved high scores.

By analyzing the score of statement 43, i.e. 1.283 out of maximum 2, we can say that the Romanian entrepreneurs acknowledge that the main method to keep their current customers and to attract new ones is to offer them top quality services and products. Customers today expect a lot from those providing services, and if they do not think that they are offered high quality services, the providing organization will soon be affected.

A significant score was obtained by the statement on the company's speed in managing customer complaints. In a turbulent business environment, the time wasted amid technical problems involving additional expenditure, the rapid execution of after-sales services is one of the most effective ways to promote an organization, as people will praise those who solve problems in a short term.

From the triad of the statements related to the assessment of customer satisfaction, the lowest score was obtained by the statement on the extent to which the organization conducts market research in order to become acquainted to customer needs and to improve the quality of services and products, namely 0.792 of maximum 2. This score shows that local organizations make moderate investments in the research on customer needs. The motivation is represented by the financial expenses triggered by those steps, involving a market study conducted by an external company, if there is no right person within the company etc.

Customer satisfaction is closely connected to employee satisfaction; between the two there is a

positive relationship. Thus, if the employees are satisfied at work, they will be more careful and nicer with customers; they will be willing to listen to them, which triggers a behavior appreciated by customers. Moreover, the employees satisfied with their jobs are less tempted to leave their jobs; therefore, close ties based on trust form between them and their customers.

**The employee’s fulfillment and commitment (questions 46-49) implies people’s** affiliation to the organization’s vision and values, satisfaction with the work done and maintaining their morale at high levels, resulting in voluntary cooperation for the achievement of the objectives.(Pfeffer, 2010, p.135).

If those in power involve the executive party in decision making, they entrust it with activities involving a high difficulty level, encourage it to work in a team, to cooperate in tasks. The employees will thus realize that their work and effort bring added value to the company. Finally, employees become more motivated, more faithful and, therefore, more satisfied because they are responsible for their own decisions in the achievement of their tasks.

The fulfillment and dedication of the surveyed employees come from a workplace climate based on respect, trust and mutual cooperation between employees and their managers, as evidenced by the score of statements 48 and 49. The propagation of such a climate is the managers’ responsibility. If the latter removes the obstacles, making an individual feel fulfilled and respected at work, they create an environment conducive to achieving employee satisfaction.

The surveyed employees are concerned about the profitability of their company because their job security depends on it. However, this time, we also notice the hierarchical barriers and the hampered communication of the responsibilities to employees, which hinder teamwork and the inter-departmental cooperation for the achievement of tasks, if we look at the scores of statements 48, i.e. 0.603, and 46, i.e. 0.301, from maximum 2.

**Financial performance (questions 50-52).** The statements from this questionnaire are general and the employees’ assessments are based on their perception; there is no detailed financial analysis of financial performance, but one based on the subjects' answers.

If we looked at the scores of statements 50, 51 and 52, we could say that the surveyed employees place their organization in the maturity stage, where the company’s financial performance is positive and the number of customers and of the contracts concluded with them grow in a slow pace; there is felt the lack of advertising, promotion and investment actions in tangible and intangible assets, in order to boost them.

The assessment of the organizational performance was achieved through the employees’ perception, under subjectivity and lack of evidence of the actual financial performance of the organizations studied.

The total score obtained by the organizational performance, through the series of statements concerning three parameters – i.e. customer satisfaction, employee fulfillment and dedication to the workplace and financial performance – is 0.764 of maximum 2. The scores obtained in the organizations studied indicate a performance located at a medium level. The excellence of Romanian organizations and the achievement of a maximum performance score depend on the increase in the scores of the three parameters studied.

This is a score obtained mostly on the account of the local organization’s interest and efforts oriented towards acquiring the loyalty of current customers and attracting new customers by offering pre and post sale services of high quality standards. It is also a score derived from a working climate based on respect, trust and mutual cooperation between employees and their managers, and less on the investment in tangible and intangible assets, made by local organizations.

A people-centered management strategy facilitates higher quality levels of customer service and greater labor productivity, resulting in high financial performance (Whitmore, 2011, p.83). The research shows that the three performance parameters interact with each other. Positive changes in the employee’s fulfillment and dedication lead to customer satisfaction, which turns into sales, i.e. financial performance. It is difficult for the organization to have excellent financial results in the long term without offering qualitative services to customers. Moreover, the qualitative services offered to customers depend on the employees’ commitment and dedication to the organization.

#### 4. Is there a positive correlation between the organizational culture focused on creating a pleasant working environment and organizational performance?

The presence of this causality was determined by calculating the Pearson correlation coefficient ( $r$ ). *The correlation coefficient measures the intensity and direction of the connection between the two variables.* The correlation coefficient  $r$  can range between **+1** (positive, direct, perfect correlation) and **-1** (negative, inverse, perfect correlation). Between these extremes, a correlation coefficient **0** (zero) indicates the total absence of the correlation, or, in other words, their independence from each other. Thus, we calculated:

- The Pearson correlation coefficient between the mean of each statement related to organizational culture (calculated in previous work) and the mean of each statement related to organizational performance (table no. 2);
- The Pearson correlation coefficient between the mean of the variable organizational culture (calculated in previous work) and the mean of the variable organizational performance (table no. 3).

In order to assess the organizational culture, we have made a number of statements focused mainly on analyzing the extent to which local employees know and identify themselves with their company's vision and values, the extent to which they are respected and trusted by their managers.

The most significant correlations are those between the statements assessing performance and statement 5, which assesses the degree of comfort that the employees feel at work. The medium and strong correlations obtained here highlight how important it is for an employee to benefit from a pleasant working environment, characterized by a relaxed atmosphere. Such an environment triggers an increase in labor productivity, which ultimately leads to the achievement of performance targets.

The way in which the working atmosphere is built within the company noticeably affects the employees' performance. In companies where the organizational culture is based on respect, trust, honesty, fairness, tolerance of the mistakes occurring during learning, and not on the exercise of authority, there is an increase in the employees' performance. As evidence in this direction, we mention the strong and moderate correlations between statements 3, 6, 7, 26 and the statements related to performance.

Tab. no. 2 – Pearson Correlation between statements of organizational culture and organizational performance

Pearson Correlation	A43	A44	A45	A46	A47	A48	A49	A50	A51	A52
A1	0.314	0.269	0.359	0.219	0.366	0.392	0.090	0.215	0.386	0.134
A2	0.275	0.365	0.431	0.150	0.353	0.480	0.450	0.137	0.374	0.203
A3	0.439	0.181	0.220	0.415	0.258	0.423	0.323	0.369	0.219	0.156
A4	-0.148	0.335	0.114	-0.043	0.090	-0.128	-0.132	0.059	0.237	0.091
A5	0.503	0.208	0.405	0.313	0.555	0.664	0.597	0.397	0.386	0.100
A6	0.336	0.209	0.244	0.334	0.342	0.428	0.322	0.419	0.486	0.297
A7	0.245	0.170	0.243	0.174	0.507	0.492	0.556	0.207	0.334	0.060
A26	0.292	0.154	0.015	0.347	0.470	0.449	0.378	0.373	0.296	0.022

Source: Own processing

Tab. no. 3 - Pearson Correlation between organizational culture and organizational performance

	Performanță
Cultură organizațională	0,677

Source: Own processing

The table above clearly reveals that an organization that aligns its members to a common vision leads the entity towards performance, given the very strong correlation between the two variables,



i.e. organizational performance and organizational culture, i.e. 0.677.

## 5. Conclusion

The organizational culture has a great impact on the employees' morale and productivity. The development of the organization can be achieved by implementing the vision and the organizational strategies in the set of the employees' values, by creating an optimal frame of mind, which makes the employees eager to turn these objectives into reality.

The organizational culture manifests a strong influence on the organization's ability to achieve its performance objectives. Therefore, it requires attention when talking about risk management, change management, customer relations management etc. The organizational culture is central to the successful achievement of the activities undertaken in order to improve the company's long-term functionality.

Every organization has a culture and a unique set of values, which differ more or less from the organizational culture of other companies. For example, there are companies that base their culture on integrity and honesty, on respect, on the concern for customers and business partners. The increase in the organization's advantageous position occurs when these values, which also support performance, are shared by the organization and by its employees.

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## Design and Aesthetics on Organic Cosmetics Market Case Study: Face Creams

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### Abstract

*Organic market in Romania is relatively new, and consumer information plays an important role. On this market, the elements of design and aesthetics of goods have a crucial role in the way they are perceived. The present study analyses the elements of design and aesthetics of moisturizing and nutritional organic range face creams.*

**Key words:** design, aesthetic, package, consumer, information

**JEL:** M31,

### 1. Introduction

The trade development and modernization, the diversification of trading forms have intensified the concern of producers and traders to expand the operations of wrapping. We are currently witnessing an effervescence in designing packaging, in which a number of talented designers are looking to find new, imaginative conception so the package's main functions to properly respond to the protection of products, rationalization and cost reduction and to the, aesthetic functions and sales promotion (Madar, 2015, p.83).

The elements of design and aesthetics of a product plays an essential role in the way which a product is perceived, in communicating the values of a brand, in highlighting and supporting the product functionalities and ensuring his memorization. All the elements of design and aesthetics must go beyond the visual field and must fulfill specific function: to create a functional quality product, easily operable; to create a product that visually attracts; to distinguish the product from competing products, highlighting its specificity and uniqueness; to position the brand and ensure the memorability of the identity elements such as logo, color palette, slogan or other defining elements for a manufacturer (Neacșu, 2012, p. 23).

Regarding the identity elements of a brand and logo or other specific graphic symbol, Wheeler (2009, p.66), specifies that the designer is "medium between producer and audience "and that a specific brand has to" encapsulate and suggest manufacturer's mission and objectives, and its positioning, while addressing the needs and desires of the end consumer. "

The author also states that all these elements of the brand's identity must always be conceived in a context, not in isolation: on labels, on collateral materials, on signage materials, on uniforms and embroidery. She recalls a series of characters that have become mascots for some brands, making a huge contribution to the promotion, by the fact that his target audience is much easier to identify with a character, than with a company. Through specific visual elements, these characters can communicate more subtle or more obvious product's core values it represents, ensuring brand memorability in a more attractive and interactive mode for the consumer.

Another important decision in achieving packaging of a product is linked to the type of images used (photographs, illustrations or visual elements of icon type), type of materials (giving further the product a specific texture, a certain smell, a certain weight and maneuverability) and color palette (primary brand colors, secondary colors, colors for special editions basic colors design versus colors in pastel version).

There are five basic features that make possible a new product to be adopted on a specific market (Solomon *et al*, 2008, p.189): product benefits, compatibility with market demands, the complexity, the openness to new and observability. Product design and aesthetics were instrumental in all these elements. By specific design elements, product features are optimized and highlighted, giving complexity to the product and adapting it to the market needs. Also, innovative design and aesthetic elements performed well, contribute to a very large extent to the product's observability. In this context, the permanent organization of marketing researches among customers represents the basis of the development, improvement and performances expected at the level of each company (Băltescu *et al*, 2014, p. 65)

## 2. The Organic Market

BIO products are defined by specialists ([www.infomina.ro](http://www.infomina.ro)) as follows: „ Products that are composed of only organic ingredients from non GM plants, that do not have other added chemicals like pesticides, synthetic fertilizers, genetically modified organisms or have not been applied for more effective conservation of ionic radiation ”.

Organic market in Romania is a relatively new market in which consumer information plays an important role. Consumers often make a confusion between natural products and organic products. The difference between the two products is that natural products, even if they are made of herbal were not tested bio-chemical demonstrating that plants used were not chemically treated. So organic certification is granted to products containing 97% or more organic ingredients, following a careful examination of the manufacturer. It inspects everything from land where ingredients were grown to work processes and final product ([www.infomina.ro](http://www.infomina.ro)).

Organic market in Romania can be divided into food organic products (vegetables, fruits, bee products, tea, milk, baby food, nutritional supplements) and non-food organic products (cosmetics, organic textiles, leisure products, home appliances). Key features and benefits thereof are: nutritional quality, the absence of chemicals and therapeutic properties such as the ability to prevent premature aging and some chronic diseases.

In terms of organization and functioning, organic market in Romania includes: producers (about 3000), processors (tens), exporters (about 40), importers (14 registered in 2008), traders and shops.

One of the biggest challenges on the organic products market in Romania is the processing and packaging. Industrial equipment costs are extremely high, causing many producers to export commodities to foreign markets, where they are processed and packaged on.

Regarding strictly the natural cosmetics market in 2010 it was valued at over 5 million euro (<http://www.wall-street.ro>). However, on the whole cosmetics market (cosmetics, dermatocosmetics and natural cosmetics), the natural cosmetics are unfortunately only 1% of the market. Care face products have the largest share (about 40%), continuing with body care products (about 20%), hair care (15%), baby care (12%), men care (under 1%) and sunscreen products (1%).

At European level, in 2010, in terms of the cosmetics market, Romania is still only on 16th place. The ranking is led by Germany, which has a market of 12.5 billion euros, followed by France and Great Britain, with a market of cosmetic products of 9.8 billion euros or 8.9 billion euros. European natural cosmetics market was only 3.26 million euros and organic certified products accounted for 28% of the total European market.

Compared with other European countries, a feature of Romania is the very fast pace of growth of demand for organic cosmetics, reaching over 10% per year, as opposed to the demand in foreign markets, only 1% per year. However, in Romania, organic cosmetics market is relatively new, compared with England or Germany, where these products already have a long history.

### 3. The Design and Aesthetics of Organic Face Creams

Organic cosmetics market in Romania includes both Romanian and international brands. There are also brands that produce only organic cosmetics, such as LifeCare, Sabio, cure of an age, Touch organic Reverso, Iogon, Acorrele, Fereto, PureCosmetics, Madara, Najel, RampalLatour, and brands of natural cosmetics, well known worldwide, which have organic ranges that compete the 100% organics companies.

The present study focuses on the analysis of elements of design and aesthetics of moisturizing and nutritional face creams, from the organic range.

#### **Moisturizing Cream - Cattier**

Cattier is a company in Paris that produces Ecocert certified organic cosmetics. The chosen moisturizer contains organic coconut oil with antiseptic properties, which nourishes and moisturizes intensively. Jojoba extract regulates sebum secretion and pumpkin seed oil, rich in vitamins, fatty acids and minerals, is a good antioxidant that combats free radicals, nourishing the skin deeply.

Package has a tubular shape with a transparent lid and the spray device, which enables an easy control of the amount of cream extracted from the container (Figure 1). White color of packaging performs a contrast with elements of brand identity (logo white on dark blue background) and induce the idea of freshness, hydration and cleaning through the minimalist design.

*Figure 1 Moisturizing Cream – Cattier*



Turquoise graphics indicates the type of skin for which the moisturizer is recommended and highly stylized flowers suggest the ingredients used. Organic certification is clearly visible on the packaging, the central positioning of all the elements of graphic or text creates a visual harmony and make all instructions on the packaging easy to read, from top to bottom, without requiring moving eyes left and right, without involving visual effort from the consumer.

#### **Iris Moisture Cream - Weleda**

Weleda is a German company recognized worldwide for its organic cosmetic products. Facial care range with iris retain skin moisture, just as organically grown iris retains moisture in its roots. Natural plant oils and waxes of this cream protects the skin, keeping moisture and lipid balance.

Packaging of this creams preserves iris color, communicating in terms of color the main ingredient of the cream. Also, the color has a consistency that varies over different parts of the container, like a water-based colors used in painting. In this way, in addition to its elegant, visually appealing aspect, important messages are also highlighted on the package: company logo, use of the cream (moisturizer) and organic certification.

Text and graphic elements are minimal. It is worth noting that the type of cream is written in three languages, positioning the company as a major international market player (Figure 2).

Figure 2 Iris Moisture Cream - Weleda



### Moisturizing Cream - Susanne Kaufmann

The day Cream Line F for normal / combination skin, brand Susanne Kaufmann, contains a plant-based complex of chamomile and witch hazel flowers, herbs renowned for their balancing and restorative effects. The cream contains no preservatives and artificial colors, grease, silicone, paraffin oil or animal substances. Manufacturers highlight through the online store that were not done tests on animals nor plants and were not used mature plants forced by irradiation.

Consistent with very limited list of ingredients and organic production process with minimal intervention, also the product packaging is minimalist and elegant, yet without losing the effect of modern packaging (Figure 3). Container with cream is transparent, allowing the consumer to see the product and the white packaging and cover, bring to the consumer attention just what matters: brand, cream type, quantity (on the front) and ingredients, plus certification on the back label

Figure 3 Moisture cream - Susanne Kaufmann



### Moisturizing Cream - Rosentau

Rosental moisturizer contains avocado and rose floral water, which stimulates the skin's natural capacity for moisture retention. Complex based on vitamin C and E and ginkgo biloba protects the skin and prevents premature aging of the skin. The cream is also a very good makeup base.

Packaging is represented by the semitransparent silver container with white cap and white box (Figure 4). The color palette is relatively small, consisting of silver, metallic gray, white and orange. On the container cream there is the product brand, delimited by an orange line with the type cream. The box contains orange elements of graphics and provides more information about the ingredients of the product, its use and organic certification.

Figure 4 *Moisturizing Cream - Rosentau*



### **Moisturizing and nourishing cream - Sabio**

Sabio is a Romanian company producing organic cosmetics. This type of moisturizer is rich in revitalizing and regenerating nutrients, from macerated herbs, like: comfrey, celandine, calendula, rosemary, three stained brothers, echinacea, yarrow, plantain.

The product is 100% organic, 100% handmade in Romania, from 100% natural bioactive and organic ingredients, Ecocert Greenlife certified, according to Ecocert standard. All these elements are reflected in earthy colors packaging, specially created to preserve plant properties.

The container is semi-matte dark color, and the cover is black. These design elements have functional purpose, ie, blocking light rays that could spoil the product (Figure 5). It is worth mentioning that the cream terms of validity is only three months, as the majority of organic cosmetics.

Concerning the label, its design elements are minimal. Except the graphical symbol of the company Sabio, represented by a simple, elegant leaf, there are no other graphics. Type cream is highlighted in bold, and

the words 100% organic, and the ingredients and product information are listed on the right side of the label.

Figure 5 *Moisturizing and nourishing cream - Sabio*



### **Nourishing Cream - Yves Rocher**

This nourishing cream is part of the brand Yves Rocher organic range. Organic Yves Rocher cosmetics are certified Ecocert and labeled Cosmébio. They differ also by specific elements of design and aesthetics.

The cream is packaged in a special circular container that maintains the properties of the ingredients. The container is white, semi-transparent, and has a cover, which imitates the texture of wood, with a cream-colored label (Figure 6).

The label contains the elements of brand identification, the organic mention (shown enlarged characters, but also by specific circular graphic sign specific to all organic cosmetic products),

information about ingredients structured as a table, and graphic elements representing the main ingredients of the cream.

Packaging therefore keeps the particulars of the Yves Rocher brand, but the organic product is highlighted through the peculiarities named above and the warmer, more discreet color palette.

Figure 6 Nourishing Cream - Yves Rocher



#### 4. Conclusions

Elements of design and aesthetics have an extremely important role for any product, and this is especially true if a product promises health and beauty, such as organic cosmetics and creams.

Being a relatively new market, in Romania brands of organic cosmetics, be they Romanian or international, must be clearly distinguished as an organic brand through visual specific elements, as competition in the cosmetics market as a whole (cosmetic, dermatological cosmetics, Natural Cosmetics organic cosmetic) is extensive.

Regarding brands analyzed in this paper, the overall trend reveals a penchant for few, simple, visual elements, creating an elegant overview.

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## Aspects of the Transformation of Educational Management in Schools

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### Abstract

*The development of the society, especially in an era of change, directly depends on developments in education, which is one of the main tools with which the school stimulates, directs, and controls the processes of development. The option for a democratic society and open to new, focuses efforts on the educational dimension of social development, which, in line with the political and economic dimensions, must build a healthy society, improving quality of life through a superior education.*

**Key words:** management, educational management, leaders

**JEL Classification:** M1, M12

### 1. Introduction

The new educational policy prefigured in the aims of education involves educational management to ensure organizational development through promotion of educational strategies to enhance the performance of human resources, focused on the formation and development of the human personality and the ability to take independent decisions in pursuit of someone's own destiny and opt for a democratic society. Harnessing the resources available to the management, the application of creative means in the contemporary era which aims to ensure the development of the education system, in particular the establishment of the school, in a knowledge-based society.

### 2. Literature review

Much literature has long acknowledged the strong sense of vocation which the best leaders (and teachers) demonstrate through their presence and their work. The evidence is unambiguous – the most effective leaders have strong moral and ethical purposes and a strong sense of social justice. They care passionately about improving educational experiences for all groups of students, especially those from disadvantaged backgrounds. These are evidenced in the ways in which effective leaders ensure that ultimately all stakeholders (teachers, non-teaching staff, students, parents, governors and the broader community) participate through forms of capacity building, distributed leadership, and along with these, increased collective responsibility and accountability for promoting student progress and achievement. Research also tells us that moral/ethical purposes in action are evidenced by: regular professional dialogue about teaching and learning, strong social support in problem solving (care), shared goals and collective responsibility, individual and collective efficacy, norms of equity and justice.

The literature on characteristics of effective school managers and leaders focuses primarily on principals, despite a growing interest in models of shared or distributed leadership. The evidence



about successful principals in developed countries explores practices, behaviors and competencies associated with positive indicators of quality and improvement in teaching and learning. Generally, there is convergence in a set of key leadership practices associated with principal effectiveness when enacted in a coherent goal-focused way (Louis et al, 2010; Robinson et al 2009; Day & Sammons 2013): developing consensus on school goals focused on student learning; developing teacher knowledge and skills to effectively teach; creating workplace conditions and relationships that support teaching and learning (e.g., time for teachers to plan and learn together, parent/community involvement); and managing the instructional program to support pursuit of school goals (e.g., resourcing, staffing, monitoring and use of assessment data for decisions about improvement in teaching and learning, and ensuring an orderly climate conducive for learning).

The literature on school leadership and quality in developing countries also focuses on the role of principals, addressing their role in managing schools with basic resources challenges (e.g. quality of school facilities, teaching and learning materials, funding) and in the enactment of basic management tasks (budgeting, planning, resource management), as well as the perceived need for instructional leadership in the context of external reform initiatives promoted by governments and donor agencies. Systemic changes in school governance in developing countries have dramatically altered the role of principal and local educational authorities (Oduro et al., 2007; Chapman et al, 2010; Barrera-Osorio, 2009).

There are different approaches to school leadership development. The effective programs evidence suggests offering an array of opportunities for learning grounded in practice including problem-based learning; action research; field-based projects; journal writing; portfolios based on feedback and ongoing self, peer, and family assessment; and activities to develop skills such as supervised internships, analysis of classroom, on-the job observations, establishing collegial learning networks with other principals, mentoring and peer coaching (Darling-Hammond, 2007; Mendels and Mitgang, 2013).

### 3. The educational management in Romania – challenges

In the last century, the image of the leader was to command and control and this was an essential condition for the development of the organizational management. But till the end of the twentieth century and in the early years of the twenty-first century, it was found that the traditional management is not longer able to ensure the performance of an organization. That's way the good management is effective when it can rely on prediction and repetition. People are better informed and know more precisely their needs and rights. The result is the decrease of the difference compared to the institution and the people who claim positions of authority.

Fig 1. Educational Leadership Development



Source: own interpretation of results

The solution recommended by sociologists, economists, political scientists or physicians was the design of a new type of management focused on leadership. Without a doubt, the leadership is a

vital aspect of the operation of a system, and organizational leader puts his own mark on the organization, spurring the success. Analyzing the evolution of objective educational management systems, which is based on comparisons and contrasts with successful models from Eastern Europe-Polish or Latvian, there are decentralization studies that have highlighted the crucial role of a leader in the efficient management of an entity, in the context of decentralization. That is why, alongside the principles set out in the strategies for decentralization, the different studies propose five recommendations resulting from investigations undertaken in schools in Romania:

1. The manager's concern to provide educational services to a higher level of quality to a minimum threshold, the threshold set by the central authorities.
2. to ensure a balance between the degree of funding of a school and its effectiveness in the local community.
3. Assuming the decentralization process costs, influenced by the resources and potentiality of each region, in order to ensure expenditure framework
4. Compensation for possible differences in public financial flows, driven by local communities which situation recorded a deficit of needs from its own resources; the compensation is done from the central budget and the transfer of funds on the basis of pre-established schemes.
5. Observance of the principle of diversity, according to which decentralization shall be administered in a variety of forms and to varying degrees, depending on the particularities of the local communities.

Currently, delegation of authority is limited only to routine decisions, and at its own initiative, a school manager is quite restrictive. Studies of the Romanian educational reality justifies experts in change management, who consider to define from the outset the objectives pursued through decentralization, so that they can be seen as quantification of the success or failures in reform undertaken. Findings show that the management decentralization process, involves the stimulation of innovation, professional responsibility and public accountability at the level of the teachers, school managers and students, by school transfer of power with regard to: budget execution; personnel policies; increasing the share of the curriculum at the school's decision.

Successful implementation of decentralization requires that, beyond the strict monitoring and duplication of resources, education manager to prepare the actors in the system by shaping the personalities of the students and even teachers. The success of this social construction is the perfect adaptation to the requirements of the community and the real labour market. According to the experts, the school represents a huge laboratory that prepares individuals for the integration in the macrosocial, therefore emphasis should be put on fostering cooperation, the teamwork built on the concept of solidarity. For that strategy to be sustainable, it will require leaders who are always on the move, to propose and realize new things, personal reflection and incites to action, problems and solutions required by employees, keep them continually connected to the life of the school and its prospects.

#### **4. The characteristics of educational management**

The educational management is the science and art of human resources to prepare, to form personalities according to the goals pursued by the company and accepted by the individual. The educational management is a useful tool involved in the leaning process to be efficient and productive in relation to stimulating educational transformation at the level of the people, both students and teachers. It represents an integrated approach and methodology of strategic planning of the activity of education and of the principles, functions and driving rules that ensures the attainment of the educational system. Educational management deals with differentiated levels according to the level to which it is applied, as follows:

- macro: system-level learning, found in national educational policies, European (management at the level of Ministry);
- intermediate: at the level of school institutions;
- micro: at the level of the class of students

Educational system management and the educational institutions include: defining the objectives of the educational system, ensuring the legal framework, institutional design, development of thematic network of learning, training of personnel, elaboration of the principles for the evaluation and correction of system. The class management means using a set of tools for the management of relations between teachers and students on the one hand, and of the students on the other side. This toolkit is provided to teachers to facilitate their work and to help them build a healthy working environment. The class management focuses on achieving the following objectives: reduce stress in school work, through efficient management of ill-discipline and the relationship with students and the protection of children in order to provide harmonious development.

Figure 2. Leadership coaching model



Source: own interpretation of results

## 5. Educational leadership vs. Educational management

Educational management, training and leadership are topical concepts, the excellence and the end in itself, and a liability to some basic rules, especially compared to some of the needs and expectations of the organization. The views of the development of a school changes, both in light of decentralisation as well as the needs and skills of the 21st century society. The fact that an educational organization works does not necessarily mean that it is a successful one. Essential is the way it is driven (educational unit), the principles and values which are reflected in practice. New vision strategy and approach to leadership focuses on human resources and not on "guidance on targets".

The main difficulty in terms of the leadership of a school is the complexity of the variables involved: students, teachers, curricula, educational technology, partnership relations with other states and private institutions, etc. The leadership based on the principles is a management model that provides solutions to some of the dilemmas of those who lead the destinies of an organization: How can I keep a balance between work and family life, professional and personal ambitions? How can I keep the right direction, given the fact that more and more changes occur with ever more varied effects? How can I create a team whose members work to be completed at one another? How can you encourage a desire for change and modernisation without more damage than benefits?

The transformation of a manager in leading, according to literature, is "uniformly positive", and the effects resulting from different studies of school shows that leadership practices have a considerable influence on the leader's cooperation with teachers and between aspects of leadership

and change reports both in teachers' attitudes towards the modernization of the school and their behaviour related to professional development.

The leaders need to create an environment to facilitate collaboration, change-oriented, in which teachers can develop leadership skills through pursuing shared objectives, which produce a democratic workplace. However, strategies to facilitate can create ambiguity and discomfort, blurring responsibilities and forcing employees to adopt new roles and relationships. They deliver thrills and high expectations, leading to several initiatives related to human resources and materials, as well as the fragmentation of collective vision.

The applied strategic leadership elections, taken from the literature, are based on the following: the leaders should use flexible strategies, leaders must balance short-term needs and long-term objectives, strategic choices of institutional values must serve, the same action can have several strategies for the implementation of a leader is the one who has the vision on the development of the organization, but he is the one who solves the problems in terms of ethics. A leader can solve a problem in terms of ethics as follows: leaders must have and be willing to act on a definite sense of ethical standards. One of ethical standards is to anticipate the consequences of each election and try to identify who will be affected and how they affect your organization. The leader may reassess the issue of ethics, develop the habit of conscious reflection, to examine the issue from different perspectives, being fully informed in terms of Justice, morality, critics. Another approach uses the moral rules, assuming that the world would be a better place if people would always follow certain standards widely accepted.

Figure 3. School leader model



Source: own interpretation of results

## 6. Conclusion

The important transformations occurring in the development of society affects to some extent school life. The growing demand for education, lifelong learning, integration of research and education with production obliges the school to reconsider the principles, objectives, structure, methodology and style of work, in order to respond adequately to the requirements of growing that society puts in front of them.

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## Issues Regarding the Need of Transformation of Educational Management in the Current European Context

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### Abstract

*The role of education in personal and social life can not be considered a discovery of modern man. The education carried out in accordance with the moral values of the family based on choice-until modern education, is a consequence of government coercion while the educational motivation has been the same: the role of education for the individual in its own right but also as a social being.*

**Key words:** management, educational management, leaders

**JEL Classification:** M1, M12

### 1. Introduction

What characterizes the different evolution in time of the education process is the transformation of educational activity resulting from the interaction of the companies in relation with society regarded in a holistic approach. In this way, modern education has emerged and developed as an indispensable instrument of the creation and the preservation of a certain social, economic and political order.

### 2. Romanian education – the european impact

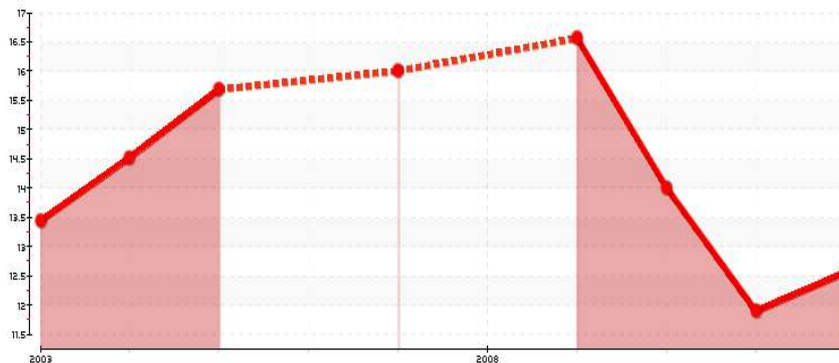
It is widely accepted that the school represents one of the most valuable social institutions of humanity. The educational system from Romania, although it was standing under constant reforms, still has a profound functional problem. Weak capacity to train creative minds and the accumulation of knowledge among students is a natural consequence of a lack of incentives and constraints existing in the public schools. What would be wrong if the educational system would operate by the rules of the economy market? What effects would have a real manifestation of competition in this area?

The market is a system of private property rights; the economic dimension in terms of exchange is the price, whose existence makes possible the economic calculation. The mechanism of profit and bankruptcy, decentralized allocation of resources contributes to their distribution according to most valuable uses. The existence of a large number of individuals in the market place, at the same time creates an optimal allocation of resources in society. The above will help us in the correct assessment of existing education realities in the market, which may finally identify possible solutions with a view to effective functioning and-paradoxically-ethical principles to this area. In this context, we aim to demonstrate that education, like any other service may not be provided

more effectively through a mechanism other than the market. Similar to a regular market, and in the field of formal education, we can talk about the existence of elements that define a market: demand, supply, price, competition. In these circumstances, the application of education information, need for expressing knowledge and skills on the part of beneficiaries of educational services: pupils, students, parents, companies etc.

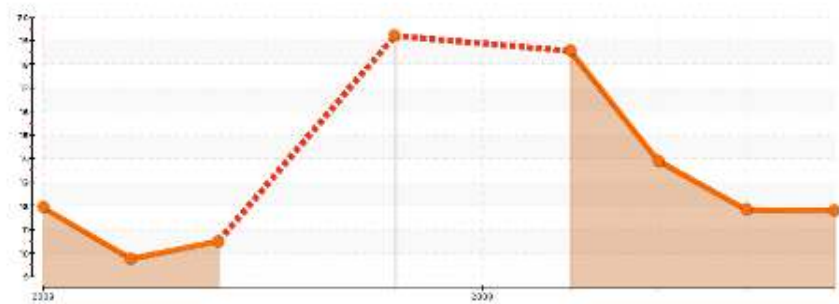
The offer of education coming from different educational institutions, public and private, whose purpose is to satiate the needs of their customers. This situation could make us believe that between schools, as providers of educational services, there is competition, through which it pursues consistently the educational needs of parents and children. Then what is wrong with the educational offer? At present, all private educational institutions, regardless of the primary, secondary or higher, wishing to enter the market, are required by law to ask for approval and subsequent accreditation from the Ministry of education and research. In other words, each private educational service provider is unable to organize his business as he thinks fit, at the urging of his clients. Therefore, it is desirable to give a private alternative to the public education system, but only in the image and likeness of the latter. However, despite all the existing constraints and institutional barriers, it is observed that private educational system responds better than the market demands. Proof of this is the development of different economic, legal education, vocational, polytechnic in the two systems, which on the one hand, the opening of the private sphere from education and market incentives on the labour market, and on the other hand, the rigidity and reluctance displayed by the public sector when it comes to change and adaptation of educational services.

*Fig 1. Expenditure per student (Secondary education, 2003-2015 World Bank)*



*Source: own interpretation of results*

*Fig 2. Expenditure per student (Primary education, 2003-2015 World Bank)*



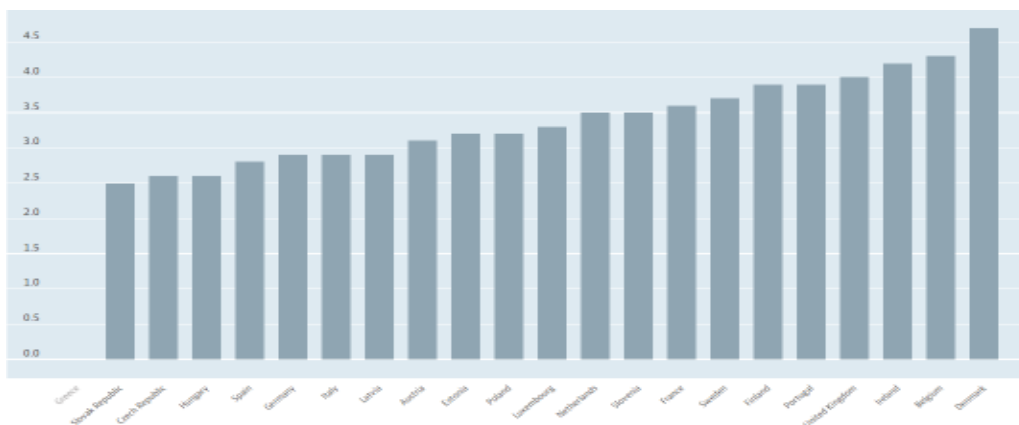
*Source: own interpretation of results*

Between expectations of what guides the market behaviour of private education and the public, there is a fundamental distinction. Private education providers have strong incentives to direct resources towards the development of a range of educational services that are compatible with the expectations of the families and with the need for specialized work required by the economic environment. Achieving such a degree of compatibility in quality (as well as the level of tuition fees) is prerequisite for the continuation of this activity. In other words, deviation from this rule may give rise to the emergence of financial difficulties and finally bankruptcy. But we can say the same thing about public education? Unfortunately, no. The fact that public schools do not depend exclusively on consumer financial resources, the administrators from the public education system should not be stimulated constantly to increase the quality of educational services in the reform of the organizational structures or in adapting curricula according to new economic and social conditions. Allocating funds continuously collected from fees and taxes, public schools are spared such opportunity to be closed and, therefore, they are not (necessarily) motivated to adapt to the wishes and requests of clients, the overall economic growth rate. In such a context, the offer is the one who must adapt to the needs, but manifests an inverse phenomenon, parents being captives in the public educational system.

Today, more than ever, we are witnessing a process of rethinking the educational systems throughout the world. Reform in education starts from the idea that the educational system is perfect. An overview of what kind of reform in various places around the globe, it is surprising to find that, although they contain certain peculiarities, are built around some key components: promoting choice among consumers of educational services and competition among their suppliers.

It is increasingly recognized that the deficiency of educational system to form competent and creative young people is a consequence of reduced availability of it, to offer customers' opportunities and alternatives. What can be wrong in encouraging choice and competition in education? It's right that parents have the right to choose the school that they believe best for their child? Then, how can it be interpreted as a certain opportunity schools (less than requested) to close its doors because consumers of educational services focuses requests to the other schools? Decentralisation and competition among schools will result in improving the quality of analytical programs and academic courses?

Figure 3. Education spending as a % of GDP (EU, 2012, OECD Data)



Source: own interpretation of results

### 3. Romanian educational system – reforms

The programmes and schemes present in various developed countries have already proven that by improving the quality of the education process, it increases the access to education of disadvantaged groups, increasing diversity, choice and competition in education. It is therefore essential that the long-awaited reform of the Romanian system is centred on the liberalization of supply and market educational services.



- *Educational voucher program*

An essential part of the Romanian educational reform, it addresses in particular those students who are enrolled in schools with poor performance, by offering the possibility to enroll in courses at some private schools whose standards regarding the quality of the educational process are widely known. Through the system of vouchers, these children may be able to secure the funding of courses. As a result of the implementation of this programme, it is expected that non-performing state schools to become stimulated to improve their educational offer, teaching methods, etc. It is also fueled by the emergence of new educational service providers focus on delivering new innovative and modern forms of education demand coming from children and their parents.

- *Universal educational voucher program*

A second proposal is a more radical reform and aims at implementing a universal voucher program, with the base case model. Among the main features of this model proposed, we identify:

- ✓ the educational voucher can be used for both private and public schools, leaving it to the discretion of parents choosing the school;
- ✓ any school can participate in the programme, including those private schools motivated by profit;
- ✓ the amount of government subsidy does not cover entirely the cost of school fees (e.g. be fixed somewhere in the 75-80%, relatively similar to the Danish model);
- ✓ schools should be able to cover the additional costs incurred in the educational process by practicing school taxes, as in the case of Germany or Hong Kong.
- ✓ just like in Hong Kong, to be developed a special system of scholarships designed to facilitate access to young people from low-income families to education provided by private actors.

- *Tax credits for education*

The third proposal is the result of the experience of successful models in the U.S. and Canada. Consists mainly in giving a non-refundable tax credit to the parents whose children attend private schools. The process is relatively simple, the total taxes to be paid are deducted from the family expenditure on children's schooling in the private system. Where a family has low income, so that taxes paid are not up to the level of school fees, we recommend building a legal framework allowing the budget to obtain an additional fund of money resources designed to facilitate access to private schools. The advantage of such a system of tax credits is the encouragement of a growing number of parents to send their children to private schools, thus raising and increasing competition among providers of educational services. Some parents, whose children attending public schools, will initially choose private schools. We appreciate, in the end, that the adoption of such measures to reform the present system of education contributes to increased financial autonomy, freedom of school and institutions, by no means neglected, at the encouragement of diversifying the education market.

#### **4. Education for future Romanian generations**

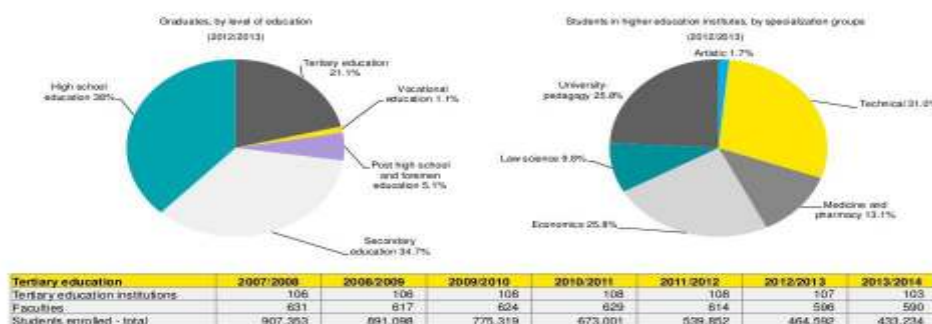
Interest in education has always been a major concern of companies and their elites. In the modern period, beginning with the industrial revolution, when access to school has been generalized, education has become a priority for all social classes, even just out of hope, justified, that individual can rise above the condition given by the family, the place and the circumstances in which he was born. Studies conducted in recent years have further education and higher education, either on all parameters of learning (learning to know, to learn to do, learn to be and learning to live together, such as: "The COMFORT Index-Europe 2010") or on the independent parameters: "learning to know" or "learning to do" have singled out the same problems: there is a close correlation between low levels of education and economic problems of the country.

In the contemporary, globalized, super tech and very dynamic period in terms of the labour market, the countries that have failed to create major changes and beneficial for education have had some things in common in their educational policies. So, reforms in countries like Poland, South Korea, Canada, Singapore, Finland, Estonia or Australia, and should be considered negative experiences to show that there are common features of the road to success that could be summarized in a "Decalogue" that Romania would be able to follow in its legitimate desire to decide his own destiny through future generations. It is therefore necessary:

- ✓ creating a vision of the country for education and education on a long-term basis. For example, Finland aims as "through high level education, the country can stay far away from the influences of major powers, thus keeping the identity"; Singapore had "the transition from third world to first world" and in the last decade focuses on maintaining at this level.
- ✓ setting high standards and so expectations from all students and at all schools.
- ✓ equal opportunities for all children. (in addition to the needs for funds for schools, high schools from poor areas, Romania may establish a system of priority allocation to those who are staying for a period in the countryside or in disadvantaged schools).
- ✓ preparing future teachers should be direct collaboration between universities and verifiable school with practice at schools-part of the requirements for the award of the diploma.
- ✓ alignment of curricula for grades 0-12 and the need for coherence in implementing them at the class level. This is a very vulnerable point of the current situation, because the existing documents of pedagogy, curriculum separates the latter becoming just a sequence of content. It perpetuates the idea that the most important mission of the teacher is information, and pedagogy and methodology are just decoration.
- ✓ motivating and engaging students in the whole school process (tours, hours after school, organized sports, artistic activities, etc.).
- ✓ clarifying responsibilities and their use for development and initiatives.
- ✓ creating a "portrait of character". We agree on the traits of character that is supposed to have a student of contemporary Romanian society, and above all the future in a globalized world. What can contribute to the future character of the Romanian citizen?
- ✓ connecting to successful educational practices in the context of globalization.

Regarding universities, the role of universities would be to actively participate in future debates and engage directly in writing curricula, both in content and in the skills and abilities to be the bridge between schools and the world of after school, after college; the real world in which all graduates will establish partnerships with schools and high schools through which future teachers to have the chance to get practical "in production" to assist in the evaluation of these experiences in the classroom and to help prospective teachers to improve not only knowledge, but also teaching methods to become not just nurseries of future teachers and professors true, but "pedagogical laboratories".

Figure 4. Education/ Romania Country Report, 2015



Source: own interpretation of results

## 5. Conclusion

A high-performance system in Romania needs to include a primarily segment sufficiently consistent, not based solely on accumulation of information, but on a formula that combines dual creatively theory with practice and providing various output options depending on people abilities and powers; a segment which accumulates massive powers, enabling the specialization in a field, which can then be followed by a hiperspecilization; linking with research and creating a high performance system that leads Romania in the area of high-technology, in addition to pursuing a very serious research.

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## The Challenge of Private Cloud for the Digital Business

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### Abstract

*For various organizations, a Private Cloud represents a stepping stone to a fully public model, while others consider it to be the ideal solution. Organizations such as the governmental institutions that have stringent data security needs might choose the Private Cloud model. Its qualities such as availability, security, compliance may convince other organizations to look at a private cloud model as well. In this paper we propose an integrated solution within the private cloud area, based on open source software. In section 2 we provide brief characterizations of the existing types of Clouds, focusing then on Private Cloud. In section 3 we address the security issues in Private Cloud. In section 4 we present and analyze different open source software solutions within Private Cloud. Section 5 encompasses some conclusions regarding the benefits and downsides of this technology, along with some detail information on how to set up an organization that runs in a Private Cloud.*

**Key words:** Digital Business, Private Cloud, Information Security, Cloud computing

**J.E.L. classification:** L8, M1, M3

### 1. Introduction

We are in the Digital Age (Rosenquist, 2015, p.66), a historical period that is characterized by the existence of digital technology. The business activities are based on transmission, processing and storage of information. Lopez (2015, p.1) defines digital business “as the creation of new business designs by blurring the digital and physical worlds”. Those new models are based on complete integration of business concepts and technological concepts. Any company within the digital business will be a technology company.

Social media, mobile, (data) analytics and cloud (SMAC) (Accenture, 2015, p.4) are the four technological categories underlying the digital transformation. They are pushing the business field towards innovation, the consumer having the opportunity to be better informed and better connected. The SMAC categories support new business model to deliver solutions and services in a contextual manner to customers anytime and anywhere within an optimized price structure. Using a cloud platform should be the first choice of the user, or at least for him to be acknowledged that is made available. The access to a product or service must be designed primarily for mobile or, at least, it should be optional. Companies need intelligent solutions for data analysis in order to be able to deliver predictions and be based on social data including information from social media.

Cloud computing is a modern concept in the computing field, representing an ensemble of distributed computing services, applications, access to information and data storage, the user not needing to know the location and physical configuration of the systems which provide these services.

There are many definitions of what cloud computing is. One that is worth mentioning is stated

by the National Institute of Standards and Technology (NIST): " Cloud computing is a model for enabling ubiquitous, convenient, on-demand network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services) that can be rapidly provisioned and released with minimal management effort or service provider interaction" (Grance, Mell, 2011, pp.2-3).

The idea behind the term "Cloud" can be derived even from the nature and purpose of this technology: the system works for users even if they have no clue about its complexity. Users do not realize that while they are using this technology, huge amounts of data are processed globally in real time, so that applications work for them, the proportions of this action being simply stunning. The only thing that users should be concerned about is linked to the terminal through that they connect to the cloud and whether or not this is connected to the internet so that they can have access to the tools that the cloud offers.

What many users may not know is that much of the structure of today's information technology industry is already in the cloud computing or migrates to it. A slow migration is performed for several years, mainly due to the infrastructure support costs and to the economy of large proportions of data centers that provide necessary performance and processing power. This delay can be attributed to the ongoing development of the internet technology towards the vast amounts of data that needs to be extracted, analyzed and organized for users to easily manage data for processing.

In the Digital Age there are stated a number of trends (Accenture, 2015, p.9): Internet of Me (DuBravac, 2015, p.1), Outcome Economy, Platform (R)evolution, The Intelligent Enterprise, Workforce Reimagined. *People First: The Primacy of People* (Accenture, 2016, p.3) it is stating to be the new strategy. This will enable organizations to create new business models that support Digital Age, based on the following trends: Intelligent Automation, Liquid Workforce, Platform Economy, Predictable Disruption, Digital Trust. Cloud Computing technology is an integral part of these trends and will become increasingly prominent in the latter half of this decade.

## 2. Important Aspects on Private Cloud

Cloud services fall into three broad categories: Software as a Service (SaaS), Platform as a Service (PaaS), Infrastructure as a Service (IaaS) (Grance and Mell, 2011, pp.2-3). The SaaS is designed to provide software to the user, usually via a web portal. While the user is free to use the service from anywhere, the companies pay some fees. Through the PaaS, the provider offers the solutions package along with specific characteristics. The services offered by PaaS include all phases of the System Development Life Cycle (SDLC) and can use Application Program Interfaces (APIs), web portals or gateway software. IaaS is a way of delivering the cloud infrastructure (servers, storage, networks) and their associated resources via dashboard and/or API. It has already purchased the software needed. This model is alike to running a virtual server on a device, only now is single server running virtual disk, being similar to the concept of "pay only what you use."

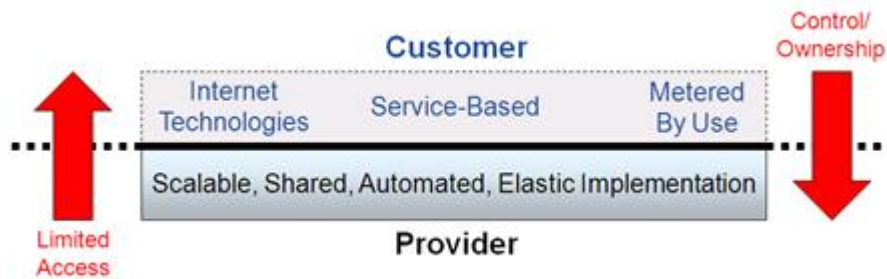
Taking into consideration the implementation methods, there are three basic Cloud Computing models: Public Cloud, Private Cloud and Hybrid Cloud. To this it can also be added Community Cloud which can be characterized by a multi-administrative domain involving different deployment models – public, private and hybrid (Velte, 2010, pp.91-172). Personal Cloud (Forrester, 2012, pp.3-5) can be defined as a place where one can store, stream, synchronize and share various content which is actively moving from one platform, screen and location to another. Through this, a new trend has been started – the Internet of Me – in which the end user is placed at the center of every digital experience.

While Public Cloud relies on third parties to provide IT services over the Internet, through Private Cloud the information and processes are managed internally. Hybrid Cloud is a mixture of the other two types of Cloud, having the possibility to extend its capabilities to be used in public Cloud. Private Cloud is similar to the public one, but their resource-providing model is limited within the boundaries of an organization. It can also be represented by several different departments within the same company. Virtualization is used on existing servers in the company in order to improve the use of workstations. A Private Cloud also involves sourcing and measurement of its components, enabling rapid deployment and change of components where appropriate. The

private model usually uses virtualization technologies in order to increase the hardware utilization and to abstract computation, memory, network, and storage component from its consumers (Shinder, 2012). Private Cloud integrates Personal Cloud when the services and infrastructure are maintained on a private network.

An organization is able to choose between two types of private cloud: the On-Premise Private Cloud (OPPC), which is hosted within an organization’s own data center and the Externally-Hosted Private Cloud (EHPC), which is hosted by an external cloud computing provider. A comparison between the OPPC and the EHPC is shown in the following figure.

Figure no. 1. OPPC vs EHPC



Source: (Bittman, 2010)

Upfront capital cost, time, resources, the needs and size of an organization are only a few of the reasons that need to be taken into consideration when one chooses a solution for Private Cloud Computing. To these are added the security requirements, the backup and disaster-recovery procedures, movement of the legacy applications to the cloud, the influence over the IT&C team and the management of the organization.

Private Cloud represents the solution that is recommended when the following situations happen: the ability to use shared resources is limited due to the security and regulatory requirements, the computing budget is not limited or the computing demand is stable over time, the business growth being predictable. It can also happen a limitation to the feasibility of shared resources demanded by the industry or the government or an acceptance of higher costs in order to be ensured that the dedicated resources are strongly desired.

The new trends included in the strategy People First: The Primacy of People together with Internet of things (IoT) (Vermesan and Friess, 2011, pp.7-206), Internet of Everything (IoE) (Bradley, Barbier and Handler, 2013, pp.1-17), Internet of Me (Accenture, 2015, p.9) and Big Data (Zikopoulos, et al., 2012, pp.3-52) make Private Cloud a topic of major interest.

### 3. Security Issues in Private Cloud

Although it resembles the public Cloud, the private Cloud has the big advantage of having the core business operations in-house by relying on the existing IT infrastructure and reducing the responsibility of maintaining it once the cloud has been set up. By using this method, the security concerns become less critical, sensitive information not going out of the private infrastructure.

However, there are some issues towards this Cloud model, the first one being represented by its security architecture. Its security perimeter is not always configured in order to protect the information and resources from attacks within the organization (Shinder, 2012). Another way for the resources to be better protected is by placing them in separate security zones, differentiating them by type and sensitivity level (Stawowski, 2009, p.35). Although one may think that because it is on the internal network it is secure, attacks are still possible (Pfleeger, Irvine, Kwon, 2012, pp.19-23). Security standards are a necessity and are not to be lowered (Bloomberg, 2012).

When the private model is implemented, the idea of having control on specific devices is not going to be possible because the virtual machines are not related to specific hardware devices. Also, the implemented security policies must not be linked to trusted zones based on any physical hardware. A compromised hypervisor can allow an attack to each virtual machine on a virtual host. This results in an increase in the resources usage of a virtual machines that causes a denial of

service across the host or even across a collection of servers. The solutions based on Intrusion Detection and Intrusion Prevention Systems (IDS/IPS) (Pathan, 2014, pp.3-258) are the ones that are recommended in these scenarios.

A key concept is that security “is an enabler, not a disabler” (O’Hanley and Tiller, 2010, p.146). In the same time, nothing about information security is ever black or white. The security policies for Private Cloud must be adapted to its essential characteristics: on-demand self-service, a broad network access, resource pooling, rapid elasticity and measured service. A first step consists of determining the roles and responsibilities based on a RACI Matrix (Responsible, Accountable, Consulted, and Informed) (Smith and Erwin, 2015, pp.2-14). All the actors involved must understand them very well and document the scenario.

Attack surface analysis is used in order to deduce the cyber security control methods through which the vulnerabilities of physical entities (Humans, Datacenters, Servers and Storage, Networks, Operating Systems, Hypervisor/hosting operating systems, Cloud management consoles, tools & APIs.) or virtual entities (virtual network devices, Virtual (Guest) Operating Systems, Hypervisors, Management Consoles and APIs) can be eliminated or mitigated.

The formal process for making different changes to the Private Cloud services is called change management. For the NIST change management model (Johnson, et al., 2011, pp.16-46) to be used, various steps are required: request the change, record the request, determine if change control is required, analyze for security impact, test for security impact, approve the change, implement the change, verify the implementation, close the request. For a successful deployment to happen, an effective logging, monitoring, measuring and event management strategy are required. The incident management and recovery provide assistance within the cycle of the incident. The NIST security incident framework (Cichonski, et al., 2012, pp.21-51) reports four distinct stages for managing security incidents: preparing for the incident, detecting and analyzing the incident, containing, eradicating and recovering from the incident and performing post-incident activities.

Implemented private Clouds can be a successful action within various business activities, such as healthcare or financial sector. However, one must take notice that the security procedures have been properly implemented.

#### **4. An Approach on Building a Private Cloud Solution**

The GNU General Public License (GPL) projects have made great progress in recent years. They are thought to be a viable alternative for the construction of Private Cloud. OpenStack, CloudStack, Eucalyptus and OpenNebula are the most important open source cloud computing software (Barkat, Diniz dos Santos and Ikken, 2015, pp.187-204).

Initially presented as an Infrastructure as a Service (IaaS) solution, through a number of improvements the OpenStack models type approached to those of Platform as a Service (PaaS) and Software as a Service (SaaS) models. OpenStack provides a broad set of possible configurations and integration within the existing systems. It can also control a large number of computational and storage resources and network. OpenStack infrastructure virtualizes the hardware structure and it optimizes both the physical and human resources within an organization.

CloudStack enables the creating, managing, and deploying infrastructure of cloud services. It can support multiple types of virtualization, including the LXC (Linux Containers), being able to run multiple instances of hypervisor type. CloudStack requires: a management server, placed outside the virtual infrastructure and provides the control's cloud, virtual hosts that will run in virtualized environment, primary storage where they will be physically stored files and a secondary storage where one can make the savings.

Eucalyptus provides a way of managing a large number of physical machines that run virtualized instances. It consists of the following modules: the cloud controller, storage controller, storage controller elastic cluster controller, controller node. Eucalyptus Private Cloud solution is fully compatible with the offered Amazon Cloud model. This allows the movement between Amazon Cloud platform created our private and even use as a hybrid Cloud, without any modifications.

OpenNebula is a software that uses existing network interconnected for creating virtual environments and has the advantage that it resizes easily to the demands of new services. It

integrates into any existing environment. OpenNebula allows private infrastructure expansion with remotely infrastructure and is able to create isolated virtual data centers. In these datacenters virtual user groups can create and control virtual machine instances.

OwnCloud is a software package for file storage, being an IaaS private personal cloud service. From a functionality point of view it can be compared to Dropbox or Google Drive. However, the main difference is that OwnCloud is free and open-source. It allows access to storage from mobile devices, desktops, or Web browsers.

Xen and KVM solutions (Jaikar, Kim and Noh, 2013, pp.118-131) are open source virtualization software used above. They add a number of commercial options including VMware or Microsoft Hyper-V.

Containers-as-a-Service(CaaS) is essentially a Private Cloud solution (Pahl, 2015, pp.24-31). Docker, Kubernetes, Rkt are a few of software solutions. CaaS offers full security control, direct data access, direct integration ability, full ownership date, integrated single sign-on and complete cost transparency. AppScale, OpenShift, Cloud Foundry are some of PaaS open-source software solutions.

The best SaaS applications from a Private Cloud must be integrated within social, mobile and analytical parts. The SaaS solutions open source available target areas of interest such as (Krishna, Nandimandalam and Choi, 2016, pp.53-62): Network Monitoring, Cloud Backup and Storage, Big Data, Business Process Management, Content Management, Customer Relationship Management (CRM), Document Management Systems, E-Commerce, E-mail/ Collaboration/ Groupware, E-mail Marketing, Enterprise Resource Planning (ERP), Human Resource Management (HRM), Invoicing, School Management/Learning Management Systems, Time Tracking, etc.

Private Cloud solutions based on open source software have been gaining more and more ground. The intellectual property policies must be evaluated and updated in order to meet the obligations that are associated with the Private Cloud environment. With the help of specifically designed tools, the organizations can detect the open-source code, providing then a list of the license obligations that accompany each component. In order to define the acceptable intellectual property license policies for the organization, audit the current software portfolio and incoming code, and ensure compliance through all of the software development and procurement stages, an Open Source Software Adoption Process (OSSAP) can be used (Protecode, 2016, pp.1-5).

## 5. Conclusions

For a number of institutions, a Private Cloud will be a stepping stone to the public model, and for others this will represent the ideal solution. Organizations with higher data security needs or organizations with the right scale might pursue a private cloud model. Availability, security, compliance etc. may be the qualities that will drive other companies to look at a private cloud model as well. However, cloud computing represents an exciting evolutionary step in computing and organizations will be able to choose between private, public or hybrid cloud offerings based on their unique needs and concerns.

The implementation of a Private Cloud aims to avoid many of the objections regarding cloud computing security. Because its setup is implemented safely within the corporate firewall, a Private Cloud provides more control over the company's data, ensuring security, though with greater potential risk for data loss due to natural disaster. The organization that is implementing the private cloud is responsible for running and managing the IT resources instead of passing that responsibility on to a third-party cloud provider.

In order to have a Private Cloud implemented, an organization needs to follow various steps. Doing research of the needs and benefits of this type of Cloud is the first step. After analyzing that the proper processes and policies are in place to successfully build a secure Private Cloud, it is highly important the way that it is developed and tested within a non mission-critical environment. The IT staff must be trained appropriately on how to manage the Private Cloud and employees and partners on how to access and use the Cloud. Based on all of these aspects of Private Cloud, we propose an integrated solution that is based on open source software.

Within the Private Cloud deployment model, once roles and responsibilities are determined they must be rigorously documented, and all of the actors involved must have a thorough understanding



of them. It is required an understanding of the risks that are related to: Application Design, Architecture, Business Continuity, Data Location, Funding, Legal and Regulatory, Privacy and Reputation, Human Capital, Security and Standards.

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## About Security Solutions in Fog Computing

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### Abstract

*The key for improving a system's performance, its security and reliability is to have the data processed locally in remote data centers. Fog computing extends cloud computing through its services to devices and users at the edge of the network. Through this paper it is explored the fog computing environment. Security issues in this area are also described. Fog computing provides the improved quality of services to the user by complementing shortages of cloud in IoT (Internet of Things) environment. Our proposal, named Adaptive Fog Computing Node Security Profile (AFCNSP), which is based security Linux solutions, will get an improved security of fog node with rich feature sets.*

**Key words:** Fog Computing, IoT, Fog Computing Security

**J.E.L. classification:** L8, M1, M3

### 1. Introduction

Fog computing is a modern computing paradigm, representing distributed computing services, applications, access to pieces of information and various storage data, the user not needing to know the physical configurations for the systems that provide these services. This new technology is based on the tendency of cutting out the costs of the delivery services and increasing the dexterity of the deployment of the services. Utilizing this distributed computing concept, the services can be hosted at end devices (e.g. access points), creating an automated response that drives the value.

The term fog computing was first introduced by Cisco Systems and it refers to a model aimed at broadening cloud computing to the edge of an enterprise's network. Fog computing emerged as a response to the development of new technologies based on IoT (Internet of Things). A fog node is a structure of physical objects or "things" that are equipped with electronics, software, sensors and Internet connections, through which data is collected and distributed. The main requirements highlighted by Cisco White Paper (Cisco, 2015) for fog computing are: latency minimization, network bandwidth conservation, reliable operation, addressing of security concerns, data collection and securing across various wide geographic areas.

The routers, switches and IP based video cameras are some of the devices that are close to the client, having the intention to provide data services, processing, storage and applications within fog computing. A real challenge for fog computing is also the extraordinary development of IoT. In the IDC study, Worldwide Internet of Things Forecast, 2015-2020 (IDC, 2015) the following are expected by 2020: the global Internet of Things market will grow to \$1.7 trillion in 2020 from \$655.8 billion in 2014; over 29.5 billion of embedded and intelligent systems will be functional; over 25 million of IoT applications will be available for those that are interested in; the amount of data that is handled by IoT will reach 50 trillion GB.

There are many advantages of using fog computing. As the encrypted data moves toward the

network core, security is greatly improved. Then, as it approaches the enterprise, the data is checked, passing through firewalls and other security points. Another benefit it represents the fact that using edge computing consumes less amount of bandwidth. It also provides high levels of scalability, reliability and fault tolerance.

Along the all benefits that fog computing has to offer, there are some security issues which can especially affect the reliability, data safety, data theft and the efficiency of this modern technology. One of the considerations taken when talking about the fog are the security aspects, for example the data security that can present different problems.

In this paper we first present a state of the art concerning the fog computing technology in section 2. We then explore its security issues faced by consumers. Section 4 encompasses some conclusion regarding the benefits and downsides of this paradigm, along with some tips for the issues presented to be tackled.

## 2. Related Work

BETaaS (2012) suggested the term of “local Cloud” instead of using the original Cloud. This “local Cloud” refers to the devices that provide connectivity of smart things to the Internet, for example phones, routers etc. Using this method, applications are able to respond in a systematic way and also to require simple and repetitive interactions.

Maharjan, et al. (2013) introduced the Demand Response Management problem in a network of multiple utility companies and consumers in which every utility's objective is to maximize its own advantage. Korzhyk, Conitzer and Parr (2011) proposed a Stackelberg game (Mazalov, 2014) between utility companies and end users to maximize the revenue of each utility company and the payoff of each user. A distributed algorithm was developed that merges to an equilibrium having had only local information available for both the utility companies and the end users. However, the most important downside is that it exists a significant communication overhead between users and utility companies.

Fadlullah, et al. (2014) studied the way energy consumption can be optimized by considering the interaction between both parties. The energy price is represented through a function of total energy consumption. The target function optimizes the difference between the value and the cost of energy. The interaction between the power company and its consumers is patterned by using a two-step centralized game named the Game-Theoretic Energy Schedule (GTES) method.

Zhou, et al. (2010) proposed an adaptive traffic light control for maximization of the traffic for both single and multiple lines. Moreover, Li and Shimamoto (2012) suggested a three-tier structure for traffic light control. Firstly, an electronic toll collection system (ETC system) collects the road traffic flow data and calculates the advised speed. Secondly, the radio antennas are installed near the traffic lights. The last step consists in obtaining the road traffic flow information by having a wireless communication between the antennas and the electronic toll collection devices.

Hong, et al. (2013) presented applications of fog computing in the area of mobile devices. He suggested a spatio-temporal event processing system that utilizes a prediction-based continuous query handling. The created system forecasts future query regions for moving consumers and the processing of the events is done early in order for the consumer to have the live situational information when he will reach the future location.

Nishio, et al. (2013) proposed a mathematical framework for diverse resource sharing based on the concept of service-oriented utility functions. In Mobile Cloud Computing, the mobile devices share their heterogeneous resources and support services. Madsen, et al. (2013) combines Smart Grid, Cloud computing and sensors towards Fog computing.

The Cisco IOx (Figure no. 1.) allows devices (routers, switches, wireless access points, video surveillance cameras, and Cisco Unified Computing System (UCS) servers (Gai, Salli and Andersson, 2011)) from a Cisco fog node to be programmable. The devices do not come from the factory with a standard behavior, the user having the possibility to construct it later. The purpose of IOx works is to host applications in a Guest Operating System (GOS) running in a hypervisor directly on the Connected Grid Router (CGR). Python (PSF, 2016) or compiled code at the network edge can be run. By default, the CGR comes packaged with Yocto Linux (Linux Foundation, 2016), but it's possible to replace that image with another operating system. All Cisco fog nodes

have converged compute, networking, and storage, which simplifies management and reduces power and space requirements. The user can develop and enhance IoT applications in the cloud, and then deploy them to run in the cloud and in the fog, the same application being able to run on different kinds of fog nodes without doing any modifications.

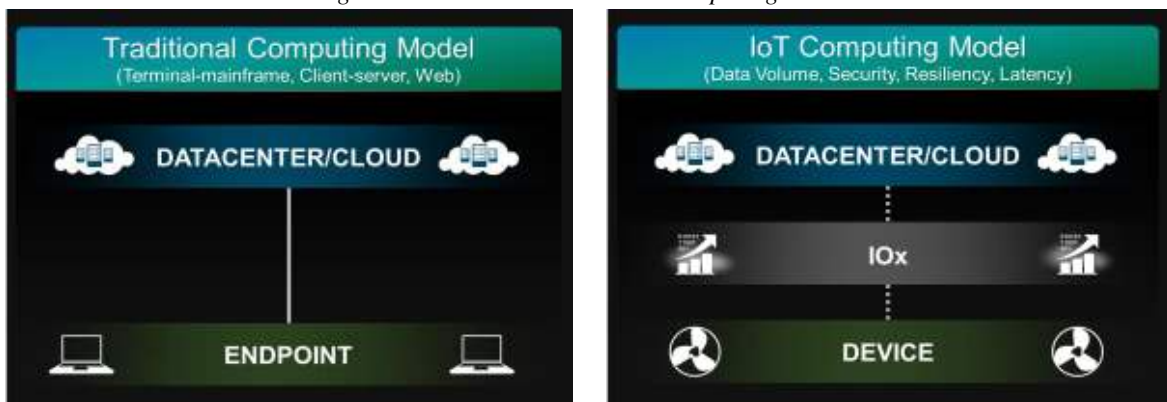
Figure no. 1. Cisco IOx platform



Source: (De La Mora, 2014, 25)

A seamless application enablement framework and compute platform across various devices operating at the network edge are provided by the IOx, having the ability to host applications and services, connecting them in a secure and reliable way to applications in the cloud. The term Application enablement covers all life cycle aspects of applications including development, distribution, deployment, hosting, monitoring and management. Traditional Computing Model versus IoT Computing Model based IOx platform are presented in figure no. 2.

Figure no. 2. Traditional vs IoT Computing Models



Source: (De La Mora, 2014, 25)

### 3. Security Issues in Fog Computing

IoT devices, such as fog nodes and back-end clouds, form what is known to be the Fog. Security represents one of the biggest issues when it is talked about fog computing. This technology involves various providers such as: the fog provider (the entity that deals with providing the infrastructure to the users), the services provider (the entity that uses the infrastructure in order to deliver applications/services to end users) and the consumers of the services provided (the entity that uses the services stored in infrastructure). Each element has its own security management system and everyone has their own requirements and capabilities. As a result, all the parts can lose control over data, especially the providers of fog – who are not always aware of the content and the security requirements stored on their infrastructure – and the consumers – who cannot control the security of their own data.

The client must be able to protect data as it travels between fog nodes and the cloud by using

Cisco cybersecurity solutions (Cisco, 2016). This must be provided before, during, and after attacks. For example, detection of anomalous activity using Cisco NetFlow, Cisco TrustSec, and Cisco Identity Services Engine (ISE). Prevention of breaches using Cisco Advanced Malware Protection is also very important. Responding to anomalous activity by automatically enforcing security policy may be also done. With Cisco Intrusion Prevention System (IPS), the security policy can take into account the target of the threat. In IT environments, the response to a threat might be to quarantine or shut a system. In an Operational Technology (OT) environment, the response to the same threat might be to alert system operators who have the knowledge to decide on the best action.

The security of stored data represents one of the most significant issues within the fog computing security area. In this environment, all the data is stored with a third party, which makes data security to become the main security concern. This way, the traditional security solutions cannot be implemented directly.

Moreover, cryptographic methods can be used. By using these methods to ensure the security within Fog, the consumers do not have any control over the data stored in the Fog. As a result, there is no explicit knowledge of the data stored.

Fog computing is known to be managed through data centers working in a cooperative manner, distributed protocols having a key role in ensuring the security system on Fog storage. Also, when attacks happen, nobody can be identified. Moreover, it cannot be detected which file was hacked.

Most security incidents regarding Fog computing are posed by the traditional hostile attacks. Man-in-the-middle attacks will become increasingly common in the Fog area, in which gateways which are operating as fog devices may be compromised or replaced by mock devices. Depending on the scenario, it may be difficult to protect the communication between the fog nodes and the IoT devices using encryption method. A downside to this is represented by the well-known fact that encryption and decryption methods consume large amount of battery on mobile device. (Stojmenovic and Sheng, 2014)

Intrusion detection systems come as a support to analyze and monitor the access control policy, as well as the log file in order to detect intrusion behavior. This system can be run to detect DoS attacks (Petac, Alzoubaidi and Duma, 2013) and port scanning. Because of the limited resources IoT devices have, it is more difficult to detect rootkits than the other attacks. These can cause several issues regarding the information extraction by having higher privileges than the embedded hypervisor.

Another problem is represented by malicious detection technique within the environment. This can be used whenever some fog nodes are compromised, the technique detecting malicious code. It is a facility that is combined with signature-based detection technique and behavior-based detection technique (Wu and Irwin, 2015). The first technique being more useful because of its lower costs.

We propose an Adaptive Fog Computing Node Security Profile (AFCNSP) based on security Linux solutions. For fog nodes it is very important to decide what security protections will be necessary. A fog node application cannot access the network, the services and the data of other application without authorization. Simplified Mandatory Access Control Kernel – SMACK (Schaufler, 2016), Discretionary Access Control – DAC (Schneider, 2016), Cynara (Tizen, 2016) and netfilter (Gheorghe, 2006) are Linux kernel security modules that protects data and process interactions from malicious manipulation by using a set of custom mandatory access control rules. The functional requirements that appear in AFCNSP include the following security services: Authentication, Authorization, and Accounting (AAA); Mandatory, Discretionary, Role and Rule Based Access Control; Symmetric and Asymmetric Encryption; Data Integrity; Audit. AFCNSP provides the required security services and assurances in order to process administrative, private, and sensitive pieces of information. The moment when something or someone compromises a fog node, its system recovery and manageability tools can proceed to clean up the system. These tools can also prevent future attacks and identify the portions of the system that are no longer trustworthy. AFCNSP is based on the following security solutions with the purpose to protect fog node: Virtual Private Network (VPN) connections, Secure Socket Layer/ Transport Layer Security (SSL/TLS) certificates, Secure Shell (SSH) authentication, firewalls, Service auditing, File Auditing, Intrusion Prevention Systems (IPS), Intrusion Detection Systems (IDS).

## 4. Conclusion

The fog computing architecture is one of the most and newest promising models for service providers, fog providers and users. But for this model to be used in a proper way, the existing security issues must be solved. Based on the issues presented above, it can be summarized that some of the problems of fog security are as follows:

- Some of the security problems come from technologies used such as virtualization and service-oriented architectures;
- Security management is difficult to control, given the number of requirements;
- The Fog should have a structure ensuring access to data in the cloud just after passing through security levels previously.

Some solutions that are recommended to be taken into consideration are the inference in Fog architecture - when the delivery mechanism and user interfaces should provide flexible interfaces security, the support and integration with other security methods for different layers to ensure better security and a continuous adaptation to environmental changes and to the needs of providers. With this purpose, an Adaptive Fog Computing Node Security Profile (AFCNSP) based on security Linux solutions is proposed. Embedded developers using AFCNSP will get improved security of the fog node with richer feature sets.

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## Implementating Information Technology in E-Human Resource Management

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### Abstract

*Information technology (IT) has become an indispensable part of our contemporary world. More and more organizations have been replacing face-to-face human resource management activities with electronic human resource management, which is considered as one of the key factors that every organization needs to focus. Considering that human resource management is one of the necessary needs of today's business, the goal of this article is to establish the importance of human resource management (HRM), to examine recent research in e-HRM in order to evaluate the cumulated evidence on the relationship between HRM and e-HRM and to outline the impact of e-HRM on human resource. Many specialists underlined the fact that human resource requires more attention and careful management than any other resource of an organization. This paper also deals with the influence of Internet and information technology on work and human resource management.*

**Key words:** information Technology (IT), human Resource Management (HRM), electronic human resource management (e-HRM); Internet; e-recruitment

**J.E.L. classification:** M12

### 1. Introduction

Human resource management (HRM) and electronic human resource management (e-HRM) are relatively new research streams. HRM literature emerged about 30 years ago and early e-HRM studies begin appearing around 1995. Interestingly, both research streams invoke potentially transformational outcomes for the role of human resource management within organizations.

The human resources of a company play a major part in its development. Human resources can be defined as one of the most important investments an organization can make whose results become more evident over time. It can even be stated that human resources are the organization itself. The human resource management is a large concept used amongst professionals. This term takes on a key part in the success of any system. It has evolved from many terms and functions such as human capital, laborers, personnel and currently human resources. The few changes in these terms also mean changes in the way human resource managers plan their strategies in managing employees. The evolution of Human Resource Management has progressed through the ages from times when people were abused in slavery working conditions to the modern environment where people are valued and respected and viewed as strategic partners to business.

Human resource is a term which many organizations describe as the combination of traditionally administrative personnel functions with performance, employee relations and resource planning. The concept of human resources is not new. Peter Drucker in his book "The Practice of Management" underpinned the three functions of management: the achievement of economic performance, the leading of managers and the management of workers and labor.

Human resource management contributes to the growth of economic and social efficiency of any firm, through high level integration of firm activities according to the market and national economy, based on economic criteria which results in absolute and relative saving of the

workforce. It is obvious that human resource management is not limited just to the economic branch; social efficiency is particularly important and it refers to aspects hard to quantify directly, but with multiple consequences on all factors involved in society activities, and firstly on the human factor.

The efficient human resource management is essential for the success of an enterprise. When human resources are neglected or led improperly, the organization stops being prosperous and even regresses.

The challenge for any organization is to maximize the full capabilities, skills and competencies of its employees in the most effective and efficient manner, whilst still creating a working environment where the employees work life-balance is achieved. Organizations spend significant amounts of money on their employees, and due to the costs involved, staff remuneration as well as staff hiring, retention and development, are some of the most obvious investments in human resources.

In conclusion, investing in people has turned out to be the surest way to ensure the survival of an organization as well as its competitiveness and future. We can therefore say that the human resource is the first strategic resource of any organization. Their strategic importance is highlighted by the fact that they are an essential variable in the success or failure of any organization.

## **2. Human Resource Management – New Challenges in the Computer Era**

Throughout the history of society, the basis of the economy remained unchanged. The new millennium is driven by the globalization, liberalization and technological development. Developments of information and communication technologies (ICT) made the world one single connected system. New era brings new challenges. Human resource management (HRM) is now faced with a new challenge, creating new models for achievement of global mobility, efficiency and competitiveness. Technology has changed the world in many occasions and many ways. In the information age, the emergence of computers and the Internet has only strengthened these changes. Today, many companies cannot function without using a computer. Therefore, HR as an integral part of the companies have not sidestepped that way - new technologies have a significant impact on the practices and processes in this field.

Organizations focused on innovation and change must be characterized by five essential traits: the number of levels in the hierarchy must be low, in order to speed up the decision-making process; technological forecasts must be realized and new technologies acquired; educational and training programs must be put in place, to inform the staff about the latest technologies and to determine the development of skills in this direction; special attention must be given to workers with superior training through an adequate rewarding system; the company must assure the connection to the important sources of information in their field of activity, on-line network being most essential.

Taking into consideration the information technology and its impact on human resources management, information technology is seen as offering new opportunities for product development, at the same time, providing the means for generating innovative products in a fast-changing environment. The role of human resources is changing, the human resource professionals become consultants, planners, analysts and decision makers. At the same time, human resource departments must cope with an increasingly larger volume of data which hinders their activity. In this scenery, it is stated the essential role of computer applications, capable of managing all employee's data, of the Internet and Intranet and all other technologies with a great impact on HR management.

## **3. The Impact of E-HRM on HR**

In the recent years, with the progresses in science and technology, especially in the field of IT, we have seen massive transformations through the management methods of organizations and human resources. With the evolution of Human Resource Management, it has become a challenge for HR to transform from HR to electronic HR. The term e-HR first came into use in the 1990s

when e-commerce started dominating the business world. Several definitions of e-HRM exist in the academic literature. The e-HRM is the use of web-based technologies to provide HRM services within employing organizations. It embraces e-recruitment and e-learning, the first fields of human resource management to make extensive use of web-based technology. From this base e-HRM has expanded to embrace the delivery of virtually all HR policies.

As it may be expected, electronic human resource management seems to provide the organizations with some vital benefits and it is a fully integrated, organization-wide electronic network of HR related data, information, services, databases, tools, applications, and transactions that are generally accessible at any time by the employees, managers and HR professionals.

These systems can improve the efficiency of human resources, decrease the costs of administrative burden, and it can also facilitate the human resources programming allowing the specialists of human resources to become a strategic or a commercial partner of the organizations. Within a system of e-HRM, it is possible for line managers to use desktop computers to arrange and conduct appraisals, plan training and development, evaluate labour costs, and examine indicators for turnover and absenteeism. Employees can also use a system of e-HRM to plan their personal development, apply for promotion and new jobs, and access a range of information on HR policy. Systems of e-HRM are increasingly supported by dedicated software produced by private suppliers.

Many researchers like Strohmeier 2007 for example, emphasized the importance of technology developments in transforming the role of HR department from administrative to strategic one. This strategic role not only adds a valuable dimension to the HR function, but also changes the competencies that define the success of HR professionals (Bell, Lee & Yeung 2006)

#### **4. The Role of Internet in HRM**

Internet has transformed our lives and the way we communicate, how we learn, how we work and spend free time, in essence –it has more or less changed every aspect of human society one cannot think of. The Internet, based on computer technology, has drawn a great deal of interest in the field of human resources. The significance of the Internet and information technology (IT) in both business and private field has grown considerably in the last years, with exponential growth of Internet users and services offered.

The last decade has seen a transformation of the human resource function with the increasing use of internet-based technology for activities such as recruitment, information-provision and benefit administration. The Internet offers high support in human resource management related activities, offering the possibility of online recruiting and online consulting in staff related problems. It is already known that the computer and the Internet are being used to automate most of the related tasks of an HR department of any organization. The automated systems in place strive to reduce the paper work and streamline all the functions of the Personnel Department while interacting with other departments or with other branches of the organization.

##### **4.1. E-Recruitment and Performance Management**

In this digital era, the Internet plays a very important role and one of the functions of these web based method which is conducted by many organizations is electronic recruitment. Online tools that were once a secret weapon of big recruitment firms are now available to anyone at a very affordable price or even free. The e-recruitment of personnel, through the web, also known as online recruitment is a newly adopted method and it refers to the overall process of attracting, selecting and appointing suitable candidates for jobs (either permanent or temporary) within an organization. The purpose of e-recruitment is to make the processes involved more efficient and effective, as well as less expensive. Online recruitment can reach a larger pool of potential employees and facilitate the selection process. Increasing numbers of companies are also turning to social networking sites, where potential candidates provide information about their employment history and their interests. As a result, specialized sites for recruitment of personnel have also been created using mobile recruiting strategy that uses mobile technology to attract, engage and convert

candidates. Mobile recruiting is often cited as a growing opportunity for recruiters to connect with candidates more efficiently.

Among these advantages we can highlight:

- It is a fast, convenient way to find potential candidates, and it is cheaper than using newspaper ads or employment agencies. Giving the fact that there are no space constraints, Web ads can be any length, giving even the smallest companies the opportunity to craft clever ads that will capture the interest of prospective candidates;
- Facilitates the recruitment of right type of people with the required skills;
- The participation at the recruitment can be done anytime and anywhere there is a computer connected to the internet, easy to use;
- Possibility to attract better and more candidates –invitation for application published on a web site can also be spotted by those, who are currently not seeking new employment actively;
- All data and full history of any recruitment are automatically kept up to date or/and stored;
- Fast connection to advertisements, real time applications and the confirmation that they were received;
- Low costs (taking out the postage costs, the printed application, etc.) compared to the investments in a classic recruitment process;
- National and international coverage;
- On-line recruitment eradicates huge quantities of paper, the time spent on sending and receiving post application,
- Enables the database creation which automatically filters the CV's by the pre-set specifications.
- Imports data from different databases, created for other purposes, helps take out all the possible errors when working with thousands of application;
- Recruitment websites also provide valuable data and information regarding the compensation offered by the competitors etc. which helps the HR managers to take various HR decisions like promotions, salary trends in industry etc.

Human resource manager can use the technology to monitor the performance of employees. With the help of tools like CPM (Computerized performance monitoring), the manager can know how much work has been accomplished by each employee per a given period of time. Also, the same software can help in the flow of information about employee performance across the organization.

According to Elaine D. Pulakos, in her book “Performance Management - A Roadmap for Developing, Implementing and Evaluating Performance Management Systems”, experienced practitioners have identified several characteristics that are prerequisites for effective performance management systems, there are also many decisions that need to be made to design a system ideally suited for a given organization's needs. One such decision is what purpose(s) the system will serve. For instance, performance management systems can support pay decisions, promotion decisions, employee development and reductions in force. A performance management system that attempts to achieve too many objectives is likely to die of its own lack of focus and weight. There is no type of system or set of objectives that is best suited for all organizations. The purposes for a given performance management system should be determined by considering business needs, organizational culture and the system's integration with other human resource management systems.

#### **4.2. Intranet – a New Technology in Support of HRM**

An Intranet is a private computer network accessible only to an organization's staff. Generally a wide range of information and services from the organization's internal IT systems are available that would not be available to the public from the Internet. Most organizations set up intranets primarily for employees, but they can extend to business partners and even customers. The employees can easily upload documents, publish them and change information from all over the

world, as well as update their personal information instantly, with the help of Intranet. In this way, by accessing real time information, employee’s productivity can improve.

The implementation of such services through Intranet reduces overhead costs and enhance the business. Publishing the HR policy on the Intranet, the company cuts out the printing costs. The HR staff department can administrate and update information from a central point instead of collecting them, ask for approval, print it and deliver textbooks. This saves time and money and the employee receive the most ongoing information.

A HR system based on Intranet acquires the data directly from employees and saves staff’s time allocated to data input. Workers can change personal data, recover and input information without the specialized staff assistance. Intranet facilitates:

- Communication – documents like company’s procedures manuals, information such as the organisational structure, flowcharts, worker’s phone numbers and email addresses can be uploaded on Intranet;
- Interaction – the user can interact with the system, updating his personal info;
- Financial transactions – the system offers safe financial transactions. Intranet can be used to follow the progress of projects, make reservation of the conference rooms, consulting the schedule of future company events. With the suitable program can be published clients records and contact information.

In conclusion, Intranet can be a mean to provide the company with a global perspective on business, the same way Internet provides a better picture of the world. The difference is, in Intranet case, that the company has full control of information and important data can be easily accessed.

Internal Intranet-based HRM has also been created by many organizations and it provides an easy tool that allows HRM to streamline and automate a wide array of functions. The attraction of an intranet is that it does not require any large capital outlay, it is incredibly efficient and it is simple to use.

## 5. Conclusions

Human resources are considered the most expensive resource in any organization; therefore, they need careful management. The goal of human resources management is to make sure that a company has the right number of people with the required knowledge, skills, abilities and competencies, in the right place, at the right time, at an affordable cost and who are motivated and determined to achieving the current and strategic need of a firm.

Since the mid-1990s, organizations have increasingly introduced Electronic HRM which is understood as a set of Information Technology (IT) applications that covers all possible integration mechanisms and contents between HRM and IT departments, aiming at creating value within and across organizations for targeted employees and management. It is anticipated that, as e-HRM develops and becomes more entrenched in business culture, changes will become more apparent, but they have yet to be manifested to a significant degree.

In order to meet the demands of today’s knowledge-based economy, it is almost a must for companies to maximize the potential and productivity of their employees, a goal towards which HRM information systems and e- HRM could be of help.

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## Motivational Aspects within Healthcare Units

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### Abstract

*Much of our life is dedicated to labor and because of that job satisfaction is a very important aspect of our professional life with important consequences at personal level and for the organization where work is carried out. The main purpose of this paper is the research of motivation and job satisfaction among employees in Affidea Constanta, explaining the relationship satisfaction-motivation-involvement in work because these concepts are often confused, and finally a questionnaire of 32 questions was applied to know the importance of job satisfaction factors within employees through a study composed of 25 people, including 8 men and 17 women.*

**Key words:** motivation, satisfaction, wage

**J.E.L. classification:** J24, J28

### 1. Introduction

Motivation is the effort aimed at achieving a target and comes from inside of the employees. A manager can not ask its employees to be motivated, but it can do everything possible to create a climate that motivates stronger. Although it is difficult to measure organizational climate, observing his symptoms (labor movements, presence at work, employment relationships) may indicate problems which are signs of low motivation of staff. (Constantinescu *et al*, 2000, p.98)

To succeed to motivate employees, every manager must provide an answer to the question: "why they work and why some are more eager to have good results in work than others?". Knowing these things, he can give each employee those benefits to motivate him best. Besides, are important advantages from an employee motivation: increased quality of products and services; greater effort to please the employer; positive attitude towards the company; closer compliance with deadlines; low turnover of personnel; lower rates of absenteeism, creativity and assuming responsibilities. (Constantinescu *et al*, 1998, p.74)

All management and employees can prioritize in their vision a series of motivational factors such as salary; opportunity for professional development, good pension, recognition for their work, the chance to earn a high salary after a certain period, interesting work, opportunity to use the potential available, a job in a developing company, participation in decision process, light job tasks, lack of physical work, taking part at social work, good working conditions, independence in the job or impressive benefits package. (Maynard, 1970, p.47)

Factors that increase motivation are psychological factors that bring additional satisfaction sought by employees at work. These factors are oriented mainly in the positions filled by employees and when they are present satisfaction tends to increase. Motivators factors vary from one employee to another and from one moment to another. Usually what motivated an employee in the past no longer motivates today. (Mărăcine, 2000, p.108)

## 2. General presentation of Affidea Medical Center Constanța

Diagnostic and Treatment Center Affidea Constanta was the second successful project of Affidea Romania on the market. Affidea Romania is part of Affidea International Group, one of the largest investors and operators in Public Private Partnerships (PPP) in the health field in Europe.

Affidea Center's mission is based on the premise that "*health is more important than all*", which is why Affidea Romania medical personnel is prepared to the highest international standards.

Opened in November 2003, Diagnostic and Treatment Center Affidea Constanța is located in Constanța County Hospital courtyard, accessible to patients across the country, but mainly serving the need of medical services for the population of Constanta county and neighboring counties (Tulcea, Brăila). The medical services of the highest quality are offered outpatient homes in contracts with health insurance, under contracts with hospitals and privately.

Located in the center of Constanta, Center for Imaging Diagnostic and Treatment Affidea Constanța offers Medical Imaging and Nuclear Medicine, Clinical and laboratory services and Day hospitalization. The treatment center has the training and experience necessary to tackle the most complex interventions, Constanța Affidea's team doctors has one concern: *patient condition*. Affidea Constanța doctors are doctors with experience within state system and private sectors and are at the disposal of patients with health information and services of the highest quality.

## 3. Case study on employee satisfaction within Affidea Constanța

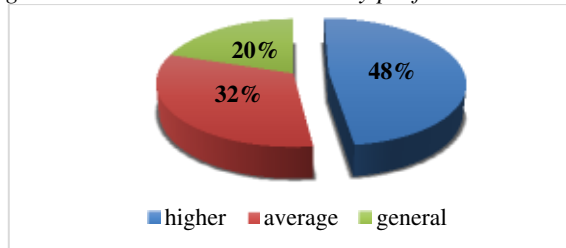
The best way to achieve the study is based on questionnaire survey, which turns out to be one of the techniques most commonly used in social and human sciences. (Popovici, 2010, p.89) The questionnaire conducted within Affidea Constanța tries to emphasize these aspects, being completed by a total of 25 people, 8 are men and 17 are women.

The first three questions of the questionnaire gives us information about employees who participated in this study: age, sex, education and occupational category. Thus, according to the results it could be seen that the human resources integrated into the company's activity are presented in a heterogeneous structure with components having different skills and different hierarchical positions.

Affidea Constanța center staff is divided into the following age categories: 20-30 years, 31-40 years, 41-50 years, 51-60 years. It is noted that the staff structure is balanced by age, yet diversified, medical center having young staff eager to assimilate as much information as possible and employees with experience, faithful to the center, where they developed their careers.

If we analyze the personal regarding their professional training we can see that of the 25 employees participating in this study, most have higher education.

Figure no. 1. Personnel structure by professional training

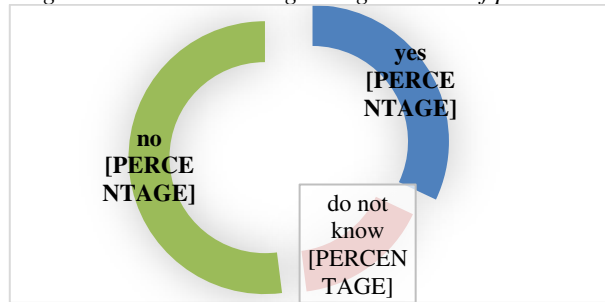


Source: own processing

Quality service offered by Affidea Constanța depends largely on training courses which employees followed and in this case we can see from the graph that 48% of the personnel have higher education.

Two of the questionnaire refer to promotion possibilities, whereas the promotion and satisfaction at work are closely linked. Thus, at the question "*Are you assured chances of promotion?*", more than half of respondents, 52% answered that they do not have chances to promote, while only 32% of employees from Affidea Medical Center Constanța believes that the current job offers advancement opportunities.

Figure no. 2. Answers regarding chances of promotion

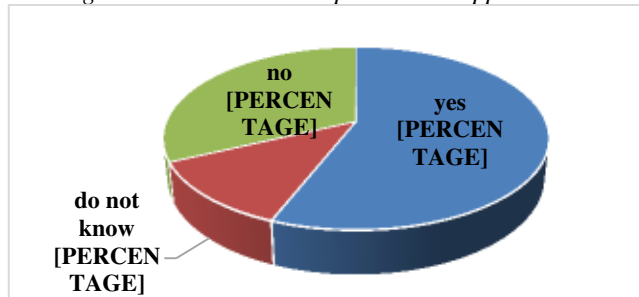


Source: own processing

A primary way to exploit the results of the staff evaluation is to promote it. In essence, by promoting we understand all the processes through which are assigned personnel within a company (medical center) posts located on a higher level and graduations or larger classes in the same post.

When asked "Do you know your possibilities for promotion?" more than half of respondents knew their promotion possibilities, their share was 56%, while 46% are unaware of the opportunities for promotion, or were not interested in this aspect, choosing as variant of answer "do not know", share of the latter representing only 12% of the total number of participants in this study.

Figure no. 3. Answers on promotion opportunities

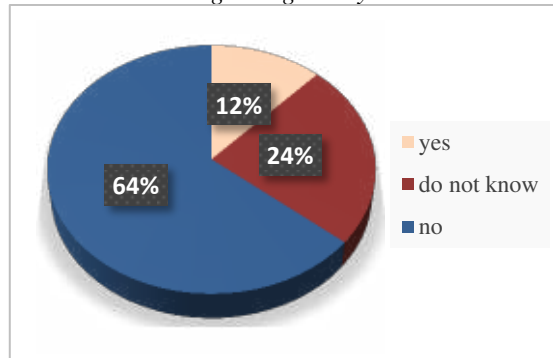


Source: own processing

Employees should be aware that the promotion involves changing position but also acquiring new responsibilities by raising skill levels, increased salary and moral satisfactions. Ability to promote is based on a fundamental criterion - personal merit, namely performance and capacity to meet the best conditions for work tasks associated with a higher post.

When asked "Salary received is correct in relation to the activity performed?", 64% of respondents believe that they are not rewarded adequately, while only 12% consider that work within Affidea Medical Center Constanța is rewarded correctly relative the work.

Figure no. 4. Answers regarding salary - submitted work report



Source: own processing

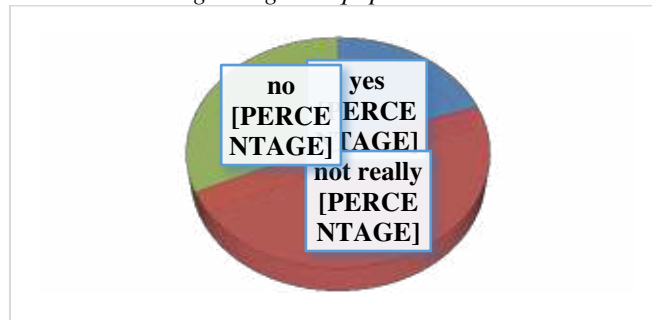
As a general definition, we consider that salary is "a sum of money paid by an individual (placed on a leading position) to another individual or group of individuals (placed on the executive



functions) as a reward for their work." Also, after many specialists in human resources and management, salary paid to each employee designates a reward in exchange for its contribution to organizational success. If the first definition focuses on the effort to be rewarded, the second definition specifies that only results are rewarded.

The following question "Are you satisfied with the level of equipment with material, equipment, tools necessary to conduct business?" tries to identify desired working conditions. According to the results, it can be seen that 80% of respondents gave a negative answer to this question, the medical center was not fitted with the equipment and material necessary for the activity.

Figure no. 5. Answers regarding the equipment level with materials



Source: own processing

The percentage of those who believe that Affidea Center is equipped enough is low, their share representing only 20% of the employees participating in the study. Because the bulk of the time is spent at work it is very important that the employee have the necessary conditions to achieve maximum productivity of their labor.

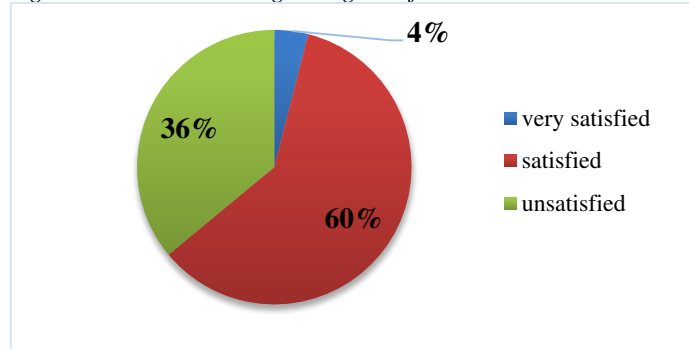
One of the questions allows the employee to comment or make suggestions to Affidea management to improve working conditions and ensure the attainment of satisfaction at work by employees. Out of the 25 participants in the study only 6 employees do not reported or proposed suggestions to superiors. The rest of the 19 respondents had the following comments and suggestions, listed in order of importance:

- *salary increase* - this suggestion was most frequently mentioned by participants. Complaints about wages and other forms of reward lead to feelings of dissatisfaction and hence the lack of employee motivation in the workplace;
- *improving working conditions* - employees frequently mentioned the need to improve current working conditions by purchasing equipment working properly, equipping treatment rooms, providing the work with the latest equipment;
- *hiring a qualified and responsible personell* - existing employees consider it necessary to extend the current work teams by hiring a responsible personal and providing jobs for young graduates eager to learn and gain more experience;
- *promotion at work* - another suggestion of employees refers to promotion opportunities at work by mentioning the conditions for promotion. It is important that Affidea offer the possibility of promotion within the medical center.

These results are consistent with the ERG theory of Alderfer according to witch existential needs are met by decent working conditions, safety or adequate pay. Also, the results show that within Affidea Center most employees are more interested in financial rewards, promotion opportunities, improve working conditions than working relationships with colleagues and superiors.

When asked "Overall, how satisfied are you're working in our hospital?" 60% of respondents are satisfied that operate within Affidea, while 36% are dissatisfied with their work. The lowest percentage, 4% is held by those who consider themselves very satisfied with the location where they apply their knowledge and share experience.

Figure no. 6. Answers regarding satisfaction with their own work



Source: own processing

Due to the fact that most of our life is dedicated at workplace, job satisfaction is very important, both at individual and organizational levels. Satisfaction coming from work is a positive state resulting from employee's attitude at work.

Within questionnaire regarding employee's satisfaction, they were asked to mention three aspects pleases them about work. Of the 25 participants, 15 did not complete this box, which can translate that currently are not satisfied with their work. The other 10 participants mentioned aspects shown in the figure below.

Figure no. 7. Answers regarding aspects that pleases employees at work



Source: own processing

In this case the results are consistent with the ERG theory of Alderfer but with reference to relational needs involving informal and formal relationships with colleagues, friends and bosses; and development needs relate to the needs of growth, development, the mere possibility of practicing the profession itself.

When asked "Indicate on a scale from 1 to 5 (1-most important, 5-least important) what you think are the main motivators" we drawn a table which includes motivating factors. In the table below are included motivating factors in order of importance:

It can be seen that the employees surveyed the main motivator is the salary because it has the lowest average, respectively 2.12. The level of salary is seen as a measure of importance in the organization of an employee, especially for employees at lower hierarchical levels, whose main source of motivation is the prospect of higher wages.

Table no. 1. The main motivators factors

No.	Motivator factors	Average
1.	Salary	2,12
2.	Safety at workplace	2,76
3.	The possibilities for promotion	2,92
4.	Work conditions	3,40
5.	Team	3,64

Source: own processing

Another motivating factor for employees is the job security, a fact highlighted by this study since this criterion average is 2.76. The working team turns out to not be as important for all employees, whereas the mean value of 3.64 is the highest value and also the nearest to five, criteria allocated to the least important motivators.

#### 4. Conclusions and recommendations

After quantitative processing results and their qualitative interpretation, some conclusions can be drawn:

- within the medical center, more than half of employees know their chances of promotion, which reflects a positive thing. This means that management of Affidea Treatment Center identified this need of employees and managed to introduce in the working process ways of satisfy the employee's need for effort recognition, thus creating the prerequisites for high job satisfaction.
- the most important source of motivation for employees is represented by the salary and benefits received. If they are sufficient, productivity will increase considerably. This is already known within companies coming into our country to take advantage of labor, which is why their managers often granted salary increases or bonuses to keep a positive attitude and focus on the rewards for those who work for them. According to the results, 64% of respondents consider that the salary is not properly received, which reflects a negative aspect.

From data described during the analysis, some recommendations for Affidea Treatment Center management can be made:

- creating a motivational policies with long-term goals for employees and organization;
- consideration the complex array of needs that people have related to work;
- acceptance that the contractual relationship with employees requires involvement and commitment from both parties of the contract;
- rigorous analysis on needs of employees before implementing a remuneration system. Management organization should pay high attention to the needs of employees related to wage and organizational climate to obtain interest for quality standards and achieving a productive work.

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# An Exploratory Study of Career Anchors in Business Higher Education

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## Abstract

*In this paper we aim to explore the topic of Schein's career anchors in a particular local context (business higher education in Romania). In order to do so, we studied the literature on career anchors and applied the test for 86 students of Bucharest University of Economic Studies, Faculty of International Business and Economics, 1<sup>st</sup> year of study.*

*As expected, we observed a higher negative correlation between general managerial and lifestyle anchors and a series of other general relationships. More than a half of the respondents are autonomy-anchored and more than a third seem to have the entrepreneurial creativity anchor. We are cautious with respect to the results, since people without work experience might find a series of statements very interesting, but value them incorrectly based on a series of assumptions they make. For our small sample we could not validate the hypothesis that women are more lifestyle oriented than men.*

**Key words:** career anchors, business higher education, students, entrepreneurship

**J.E.L. classification:** A20, I23, J24, M14

## 1. Introduction

In recent years a lot of research was conducted on Schein's career anchors, as there is a strong need for finding better ways to motivate different people. Some of the results are quite controversial, which shows the fact that career anchors act differently in different cultures.

In this paper we aim to explore this issue in a particular local context (business higher education in Romania).

## 2. Career Anchors –A Brief Literature Review

According to Schein (1978), career anchors refer to a series of driving and constraining forces on people's professional choices and decisions. The author presented five major career anchors: security/stability, autonomy, technical/functional, general managerial and entrepreneurial creativity. In a later work, he included three more anchors: service/dedication to a cause, pure challenge and lifestyle (Schein, 1996).

Career anchor theory is based on the idea of a real need of congruence between career guidance and the environment in order to lead to professional satisfaction, since, without this congruence, dissatisfaction arises (Afam and Simpson, 2007).

It was shown that career preferences are highly influenced by the social and family context and adapt continuously to people's work and life conditions (Rodrigues, Guest and Budjanovcanin, 2013).

For sure, Schein's theory represents the foundation of career anchors theory and it is the starting point for any research in the field. However, two risks have to be taken into account. First, as Schein had an initial number of five career anchors and then discovered that other 3 should be added, we could expect that some others might be added in the future as a result of the changes in

the work-related values (Rodrigues, Guest and Budjanovcanin, 2013). Second, Schein’s original study was based on a small American sample of 44 MIT alumni (panel for a period of 10 to 12 years). Typology could then be adjusted by considering different groups of workers (Mallon, Duberley and Cohen, 2005) and different cultures / countries (Ituma and Simpson, 2007).

In the following paragraphs we present a short description of each of the eight career anchors developed by Schein.

#### **Technical/functional**

People with a strong technical/functional anchor tend to develop their career in their area of competence (Schein, 1978). They need to be experts in their own field, as they perceive their own success depending on the feedback they receive after performing their job (Barth, 1993). Their motivation basically comes from two sources: (1) specialization in a field they enjoy and (2) a strong talent regarding that specialization that makes them become experts. Despite the fact that most of the people start by being quite technical/functional in their orientation, not all of them really enjoy this process, as they might see it only as a step for climbing the managerial ladder or for acquiring the experience required for starting a business. People having this anchor really prefer specialization to being a general manager, although they accept and sometimes really want to become functional managers, in their area of expertise (Schein, 1996).

#### **General managerial**

People having this career anchor feel a stronger need for formal authority, power and influence in general and see specialization somehow as a trap (Schein, 1978). Of course, in order to be good managers, people need to acquire a series of skills and therefore they should focus more on other things than specialization: analytical competence, interpersonal and intergroup competence, emotional competence (Schein, 1996). While we tend to believe that this anchor is somehow opposed to an entrepreneurial career path and more suitable to a career in a multinational, Lee and Wong (2004) found that the managerial anchor had also a positive impact on entrepreneurial intentions.

#### **Autonomy/Independence**

It is clear that some people prefer to stay away from other people’s rules and procedures and consider this a main issue. For instance, they might refuse a better job in terms of payment and even in terms of activities if this also meant giving up to their autonomy (Schein, 1996). Feldman and Bolino (2000) observed that people having this career anchor are the most driven by the feeling of living their lives in the way they want to (setting their own schedule, working at their own pace, by taking into consideration their own lifestyle). Schein (1978) found that these people do not necessarily search for financial stability, but rather for a career allowing them to do what they like and how they like.

#### **Security/stability**

Although up to a point everybody needs some degree of security and stability, there are some people who feel a stronger need with this respect and therefore have more restrictions when making major career decisions.

People who have a strong security-stability anchor tend to be very tied to the organizations offering them professional stability and financial security, as they do not want to take risks (Schein, 1978, 1996). Barth (1993) noticed that, in many cases, this anchor leads to a series of compromises, as people do not leave the organizations they work for, even if this way they lose their freedom or their talents are not recognized.

#### **Entrepreneurial creativity**

Some people observe quite early in their lives that they need to create a new business or a new product. In this case, the desire of creating “something new” is very important (Schein, 1978; Barth, 1993).

Since statements in the questionnaire referring to this anchor generally refer to the intention of owning a business, it is also important to look at the drivers of these intentions. Krueger and Brazeal (1994) showed that people’s perceived cultural and social context do have a strong influence on entrepreneurial intentions. In a series of studies, it was shown there were many cases in which people were taking into consideration the entrepreneurial career path as a result of a negative experience in companies they were working (Lee and Wong, 2004; Herron and Sapienza, 1992; Dyer, 1992; Dubini, 1988).

There are authors who consider that creativity and entrepreneurship should be considered two separate anchors (Danziger, Rachman-Moore and Valency, 2008).

**Service/dedication to a cause**

This anchor refers to the need of improving the world, of taking into consideration some values that need to be embodied in people’s work (Schein, 1996). People having this career anchor consider they have success only if they know they did something important for the others. Helping professions (teachers, medical doctors, etc.) might be suitable to such persons.

**Pure challenge**

There are people who feel a special need to overcome apparently impossible obstacles and to solve difficult problems. If everybody is happy (or at least relaxed) after removing the burden of a problem that needs to be solved, for the people having this career anchor it means a lot more, as they generally have a higher level of energy after solving the problem compared to the initial state, before the problem to arise.

They are not technically/functionally anchored, as for them it is not very important these problems to come from a particular field (Schein, 1996). However, a study applied also on students showed that students with technical talent are generally looking for challenge and opportunities to face difficult problems and overcome obstacles (Ona, 2015).

**Lifestyle**

This career anchor was first observed when looking at women graduates in MIT. As it was then increasingly observed also in men graduates, Schein included this in the list.

There are quite many people who need a balance between a successful career and a good family and social life (Schein, 1996). Schein considered that an important lifestyle issue refer to people’s availability to move geographically, if this leads to a further step in their careers.

It is still debatable if this career anchor is more typical to women or there is no clear relationship between gender and lifestyle. However, there are recent studies who still support the idea that women are indeed more lifestyle oriented compared to men (Williams, Grobler and Grobler, 2014).

**3. Career Anchor Test as an Instrument for Teaching Management**

Career anchors are really interesting and represent a good base for teaching management. In order to both introduce some concepts and provoke discussions among students, we applied the original test (with 40 statements, in English) to students studying Management in English at Bucharest University of Economic Studies, Faculty of International Business and Economics, 1<sup>st</sup> year of study. We calculated their individual scores for each career anchor and discussed the results. Of course, their data were not necessarily comparable since for some of them a total score of 19 was high and for the others was not. Therefore, we used proportions and split a total of 10 among the career anchors for each student. Correlations are presented in Table 1.

*Table no. 1 Correlations between career anchors (proportional values)*

	TF	GM	AU	SS	EC	SD	PC	LS
TF	1							
GM	-0.31277	1						
AU	-0.08138	0.019448	1					
SS	0.018784	-0.118	-0.13312	1				
EC	-0.44323	0.080268	0.095703	-0.45607	1			
SD	0.179624	-0.26054	-0.45406	-0.35881	-0.12787	1		
PC	0.06405	0.156697	-0.39895	-0.11699	-0.18543	-0.03347	1	
LS	-0.10674	-0.50778	0.044312	0.290691	-0.25901	-0.12208	-0.3696	1

Source: Own data -Test applied in April 2015 to 86 students in Bucharest University of Economic Studies

A limitation of this method of “proportions” still remain, since the same total is split proportionally to real results in the test and the gaps do not mean the same for all individuals. Therefore, we also tried another limitative method: we ranked the career anchors for each

individual, depending on the total scores and looked at the correlations again. Limitations in this case particularly refer to the differences between values (rank 3, for example, might mean something important or not, as people do not relate to the same number of career anchors. However, results are similar to the ones obtained from the previous method, as it can be seen in Table 2.

Table no. 2 Correlations between career anchors (ranking)

	TF	GM	AU	SS	EC	SD	PC	LS
TF	1							
GM	-0.26945	1						
AU	-0.06926	0.062677	1					
SS	-0.15421	-0.11061	-0.17459	1				
EC	-0.3057	0.067769	0.045318	-0.31356	1			
SD	0.246503	-0.31255	-0.30508	-0.29889	-0.21667	1		
PC	0.009092	0.095246	-0.42343	-0.09815	-0.25082	0.013372	1	
LS	-0.22656	-0.40339	-0.05337	0.308713	-0.32217	-0.11775	-0.20181	1

Source: Own data -Test applied in April 2015 to 86 students in Bucharest University of Economic Studies

Most of the results presented in the table were expectable. As we were interested to check the correlation between gender and lifestyle, we tried to look at it, but on our small sample we could not find any correlation with this respect.

## 5. Main Findings, Conclusions and Future Perspectives

First, we wanted to see which career anchors apply to each individual. We could notice that some students have only one main career anchor, while most of them are anchored in more such values.

Second, we could be aware of the career anchors that are predominant for the group as a whole. Thus, autonomy/independence was highly appreciated (62.79% of the respondents). Then, entrepreneurial creativity was encountered as one of the main anchors for 39.53% of the students. The not so well represented career anchor was, as expected, the general managerial one (9.30%). We looked for each individual not only at high values, but also at the low ones (representing anchors that are not present for them); thus, we could observe that service/dedication to a cause was the anchor that tended to be present towards the extremes (while 32.56% of the students are service-anchored, 37.21% have a very small total for this anchor).

Then, we analyzed the correlations. By looking at the two tables of correlations, we could observe similar data and some weak to average correlations and two moderate to strong correlations.

- Lifestyle is negatively correlated to general managerial career anchor. Of course, this was expected, since students generally consider they have to work hard in order to achieve a managerial position and to be successful in this career.
- Autonomy/independence is negatively correlated to pure challenge. This relationship seemed to be quite strong, although it is a little bit more difficult to understand the roots of this result (at the beginning we had the opposite expectation, because of some real examples we had in mind and of other results in the field). Since we also have other data about these students (hobbies, own definition of success, results at tests and exams, etc.) we will try to explore this negative correlation through a qualitative analysis in a later study.
- Lifestyle is also negatively correlated to pure challenge. In this case it was as in our initial assumption.
- Entrepreneurial creativity is negatively correlated to both technical/functional career anchor and security/stability. We consider this result shows quite a high degree of maturity among

students. Indeed, in most of the cases, at the beginning being an entrepreneur means leaving your own specialization in order to be able to develop the business (specialization might remain, but the time should be split between various activities). It also involves taking risks, which is opposed to the idea of security/stability.

- Service/dedication to a cause is negatively correlated to both autonomy/independence and security/stability. In the first case, the explanation is quite clear, since dedication to a cause implies, in general, giving up to the idea of autonomy, of being free; therefore, even if maybe at the beginning the need for helping others coexists with the need for having your own schedule, in time the stronger need will win the battle. The other relationship is debatable and for sure contextual. Indeed, we can understand the idea that being really dedicated to a cause can lead to unexpected changes and thus to a lower stability or that a real need for stability will diminish the desire to be always ready for helping the others; however, for some particular causes stability is also considered appropriate.
- As expected, there is a moderate negative correlation between technical/functional and general managerial anchors, showing the fact that students understand the need for a right balance (which varies significantly among people) between being highly specialized and being the one who is mainly concerned with planning, organizing, leading and controlling.
- In general, we have observed negative correlations or we have not observed any correlation at all. We consider this is normal, because people are different, but some career anchors express needs that may suppress others. The only positive correlation we observed (quite weak) was between service/dedication to a cause and technical/functional anchor. As we also have some examples of people who do have both career anchors, we will try to further explore this issue, to see if this was contextual or can express a reality.

We strongly believe in variety and complementary. Although in this paper we insisted on correlations in general, we have to admit that the most interesting and useful results come from analyzing each individual separately. Therefore, a deeper and more qualitatively-focus analysis is needed, by taking into account other pieces of information we have about these students. It would be also interesting to look at what is happening with their career anchors in time.

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## Organic Agriculture in the World, European Union and Romania between 2010 -2014

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### Abstract

*The purpose of this paper is to analyze in a synthetic but comprehensive manner the evolution of the organic farming in the world, European Union and Romania. In this sense, official statistics were in depth reviewed especially from The World of Organic Agriculture yearbooks for the period of 2010-2014. Available data starting from 2010 until present was collected, investigated and interpreted and taking this into consideration the most recent published data included the year 2014.*

**Keywords:** world’s organic agriculture, European Union’s organic agriculture, Romanian organic agriculture

**JEL Classification:** M31; Q01; Q15

### 1. Introduction

“The economy depends upon the environment, what happens in the economy affects the environment and changes in the environment affect the economy. Regarded as two systems, the economy and the environment are interdependent” (Common and Stagl, 2005, p.87). Thus, there is a two-way relationship between the environment and the economy.

The modernization of agriculture, the introduction of advanced technologies, the use of large quantities of chemicals (fertilizers and pesticides) have led, in time, to the maximization of productivity, but have also brought negative effects on the environment, like chemical, biological and physical degradation (Rusu, 2012). Organic farming seems to be an alternative to this situation, implying a mix of tradition, innovation and science in the advantage of the environment and promoting equitable relations and also a qualitative life of all the parts involved (Rusu, 2012).

If at the beginning, in the 40’s, the concept was called “humus farming”, meaning traditional farming practices which conserved and regenerated the soil (Kuepper, 2010, p.2). But through time, this term lost field and was replaced by more notorious words like: “organic” (Kuepper, 2010), “biologic” or “ecologic”. The difference between them is the region where they are utilized. Taking this into consideration, “organic” can be found in English speaking European Union’s countries (United Kingdom, Ireland), “biologic” in France, Italy, Portugal, Holland and “ecologic” in Denmark, Germany and Spanish speaking countries (Constantin, 2012).

Because people are becoming more and more interested in healthy food, this is the reason why “organic consumption is increasing and organic acreage is growing” (Kuepper, 2010, p.2).

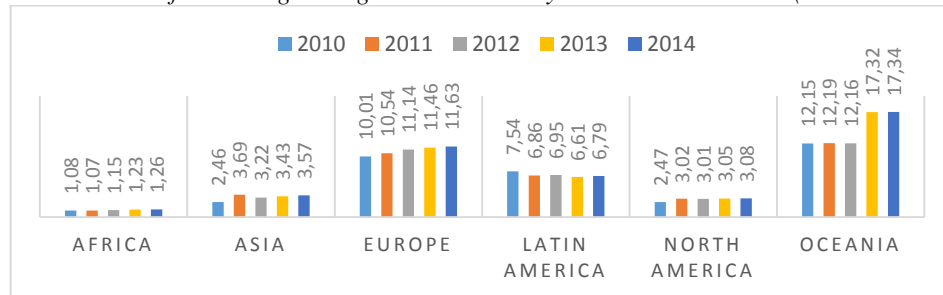
### 2. Material and method

The present paper analyses the evolution of the organic farming in the world, European Union and Romania for the period 2010-2014. In this sense, the methodology applied involves an in-depth review of the The World of Organic Agriculture reports for the following years 2013, 2014, 2015 and 2016 and also significant published scientific papers on organic agriculture. The method used was the indirect research, the documentation. As organic farming is a relatively new sector of the European agri-food economy, the official statistical data are limited, the most up to date published data including the year 2014.

### 3. Overview of the world organic agriculture

In 2010, the regions with the largest areas of organic agricultural land are Oceania (12.15 million hectares), Europe (10.01 million hectares) and Latin America (7.54 million hectares) and the rank is maintained until 2014, but with increased numbers: Oceania (17.34 million hectares), Europe (11.63 million hectares) and Latin America (6.79 million hectares) (see Figure 1). From 2010 until 2014, the total surface of the world organic agricultural land increased with 7.97 million hectares, equivalent of a 18.25% growth (see Figure 1).

Figure 1. Evolution of world organic agricultural land by continent 2010-2014 (million hectares)



Source: Elaborated by the author based on *The World of Organic Agriculture 2015* and *The World of Organic Agriculture 2016*

At a global level, in the top ten of the countries with the largest organic agricultural land in 2014 are Australia (17.2 million hectares), Argentina (3.1 million hectares), United States of America (2.2 million hectares), China (1.9 million hectares), Spain (1.7 million hectares), Italy (1.4 million hectares), Uruguay (1.3 million hectares), France (1.1 million hectares), Germany (1.0 million hectares) and Canada (0.9 million hectares). All these regions sum up a total of 31.8 million of hectares, representing 72.77% share in the world (*The World of Organic Agriculture 2016*). Taking into consideration that the total global organic agricultural land in 2014 was of 43.7 million hectares, it's significant that these ten countries sum up a total of 31.8 million hectares.

But what are the key crops groups in the organic agriculture of the year 2014? Cereals rank first, with a global total of almost 3.36 million hectares, among which Europe (1.9 million hectares) is the largest supplier of cereals, followed by Asia (0.75 million hectares) and North America (0.56 million hectares). Oilseeds are the second global crop group and from a total of 0.98 million hectares, 0.44 million hectares are produced in Asia and almost 0.25 million hectares are in Europe. The third crop group is coffee, which totals 0.76 million hectares worldwide, Latin America being the most important supplier, with a total of 0.4 million hectares, followed by Africa, with 0.2 million hectares. Also, from the main crops groups can be mentioned also: olives, dried pulses, grapes, vegetables, cocoa, tropical and subtropical fruits, temperate fruits and citrus fruit (see Table 2).

Table 1. Selected key crops groups and crops in organic agriculture 2014

Crops	Africa [ha]	Asia [ha]	Europe [ha]	Latin America [ha]	North America [ha]	Oceania [ha]	Total [ha]
Cereals	6'845	755'473	1'933'845	123'223	557'329	2'724	3'357'439
Citrus fruit	6'263	8'311	38'232	14'403	7'528	480	75'215
Cocoa	38'609	3'282		206'242		1'060	249'194
Coffee	223'351	113'061		407'776		18'728	762'916
Dried pulses	354	18'532	299'229	105	49'248	18	367'485
Fruit, temperate	8'124	26'777	127'611	5'321	19'053	1'282	188'168
Fruit, tropical and subtropical	17'289	57'842	31'610	123'568	6'717	1'117	233'143
Grapes	1'316	18'083	266'208	11'496	16'094	2'782	315'979
Oilseeds	123'546	443'878	245'700	46'583	123'902	217	983'926
Olives	125'344	6'376	492'006	2'782		470	627'478
Vegetables	5'932	34'114	131'882	52'474	64'348	1'388	290'137

Source: *The World of Organic Agriculture 2016*, p.87

#### 4. The EU-28 organic agriculture

In 2014, the European Union was on second place on global organic market at international level, after United States and covered 38% of the total, registering 23.9 billion euros. The total organic agricultural land in the European Union registered an increase from 2010 until 2014 of 1.2 million hectares. The countries with the largest organic agricultural land, possessing more than 1 million hectares in 2014 are: France (1.11 million hectares), Germany (1.04 million hectares), Italy (1.38 million hectares) and Spain (1.71 million hectares) (see Table 2).

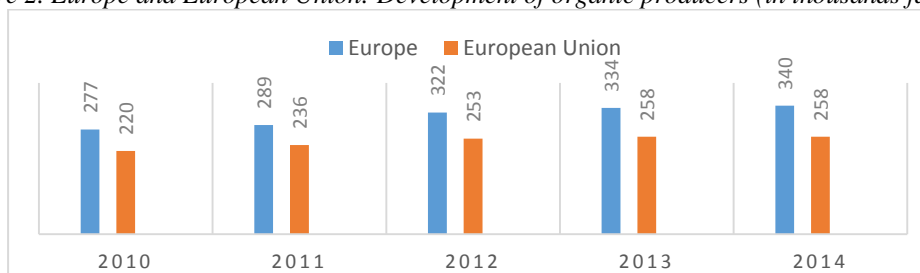
Table 2. Organic agricultural land in the EU-28 between 2010 -2014

	2010	2011	2012	2013	2014
	<b>Hectares of organic agricultural land</b>				
<b>Country</b>					
<b>Austria</b>	543'605	542'553	533'230	526'689	525'521
<b>Belgium</b>	59'220	55'304	59'718	62'529	66'704
<b>Bulgaria</b>	25'648	25'022	39'137	56'287	74'351
<b>Croatia</b>	23'352	32'036	31'903	40'641	50'054
<b>Cyprus</b>	3'575	3'184	3'923	3'923	3'887
<b>Czech Republic</b>	448'202	460'498	488'658	474'231	472'663
<b>Denmark</b>	162'903	162'173	194'706	169'298	165'773
<b>Estonia</b>	112'972	133'779	144'147	151'256	155'560
<b>Finland</b>	169'168	188'189	197'751	206'170	212'653
<b>France</b>	845'442	977'234	1'032'941	1'060'756	1'118'845
<b>Germany</b>	990'702	1'015'620	1'034'355	1'060'669	1'047'633
<b>Greece</b>	309'823	213'276	462'618	383'606	256'131
<b>Hungary</b>	127'605	124'402	130'609	140'292	124'841
<b>Ireland</b>	47'864	47'864	54'122	52'793	51'871
<b>Italy</b>	1'113'742	1'096'880	1'167'362	1'317'177	1'387'913
<b>Latvia</b>	166'320	184'096	195'658	200'433	203'443
<b>Lithuania</b>	143'644	152'305	156'539	166'330	164'390
<b>Luxemburg</b>	3'720	3'614	3'924	4'448	4'490
<b>Malta</b>	24	23	26	37	34
<b>Netherlands</b>	46'233	47'205	48'038	49'394	49'159
<b>Poland</b>	521'970	609'412	661'956	661'956	657'902
<b>Portugal</b>	201'054	219'683	200'151	271'532	212'346
<b>Romania</b>	182'706	229'946	288'261	288'261	289'252
<b>Slovakia</b>	174'471	166'700	166'700	166'700	180'307
<b>Slovenia</b>	30'696	32'149	35'101	38'665	41'237
<b>Spain</b>	1'456'672	1'803'660	1'593'197	1'610'129	1'710'475
<b>Sweden</b>	438'693	480'185	477'685	500'996	501'831
<b>United Kingdom</b>	699'638	638'528	590'009	567'751	521'475
<b>Total EU 28</b>	<b>9'049'664</b>	<b>9'645'520</b>	<b>9'992'425</b>	<b>10'232'949</b>	<b>10'250'741</b>

Source: Elaborated by the author based on The World of Organic Agriculture reports 2013-2016. Own calculations

In Europe, between 2010 -2014 it can be noticed an ascendant trend, as the number of the global organic producers grew with 18.53%, from 277 thousands producers to 340 thousands producers, meaning 63 thousands more producers (see Figure 2). In what concerns the European Union, the number of global producers grew until 2013, from 220 thousands producers until 258 thousands producers and remained the same in 2014. Between 2010 and 2014, the European Union registered an increase of 38 thousands producers (see Figure 2).

Figure 2. Europe and European Union: Development of organic producers (in thousands farmers)



Source: *The World of Organic Agriculture 2016*, p.214

## 5. The case of the Romanian organic agriculture

In Romania, the consumption of the organic products is low compared to other European countries (The Ministry of Agriculture and Rural Development of Romania, 2013). The ascendant trend of the intern production of ecological products is greatly supported by external market growth, 70-80% of the total production being exported, as inside of the country there is a niche segment of eco food consumers (The Ministry of Agriculture and Rural Development of Romania, 2013).

It can be stated that the organic sector in the emerging countries of the European Union (Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland and Romania) is confronting a primary stage of development, although the regulations and conventions of this type of agriculture have been practiced since ancient times (Bruma, 2014).

The interest for organic farming grew in Romania after the year 2000 when a new legislative framework was embraced (Constantin, 2012) and has developed after entering the European Union in 2007, according to the new rules and principles (Popescu & Pop, 2013). At present, the Romanian ecological agriculture is a dynamic sector and this can be observed in results. Between 2010 -2014 the organic agricultural land increased from 182'706 hectares to 289'252 hectares and taking this into consideration, a growth of 106'546 hectares have been registered (see Table 2). Also, this gave Romania a twelfth rank at the European level (The World of Organic Agriculture, 2016). In 2014, Romania is on the sixth position in top ten countries with the largest wild collection areas, registering 1.79 million hectares (The World of Organic Agriculture, 2016). Also, Romania ranks fifth in top ten countries with the largest number of beehives, with a number of 81'583 in 2014 (The World of Organic Agriculture, 2016). In what concerns other important organic crops, Romania registered in 2014 an area of 102'531 hectares of organic cereals, 51'528 hectares of organic oilseeds, 6'035 hectares of organic temperate fruits, 2'314 hectares of organic dried pulses, 2'089 hectares of organic grapes, and 1'913 hectares of vegetables cultivated in organic system (The World of Organic Agriculture, 2016). From a total of 10'250'741 hectares of organic European agricultural land, EU 13 (Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia) sums a total of 2.4 million hectares, while EU 15 (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom) totals 7.8 million hectares (The World of Organic Agriculture, 2016).

The organic agriculture in Romania is considered a sector with high potential and although it was promoted over time, it confronted different problems, like: incoherent policies, which blocked the sector and caused the existence of a small number of organic farmers; frequent changes in the legal framework which didn't target the real problems in this area; subventions given to the sector that had a reduced rate and were paid with delay; the lack of adequate and effective measures against those who make unfavorable advertising – the case of the operators who didn't respect the rules of organic production; the training system was weak –special programs for training the farmers are required (Rusu, 2012).

In the new European framework, Romania considered a priority to help farmers that decide in a voluntary manner to switch from conventional to ecologic agricultural system (Romanian National Network of Rural Development, 2015). In this sense, the National Program of Rural Development

2014-2020 was launched (Romanian National Network of Rural Development, 2015). The support given to the organic agriculture is based on the reason of promoting extensive farming practices, providing environmental public goods, the use of environmentally friendly agricultural practices, and offering organic products to consumers (Romanian National Network of Rural Development, 2015). Specific organic farming practices contribute to the protection of biodiversity, to maintaining the fertility and functionality of the soil, to reducing the water resources' pollution and improvement of water management (optimizing soil structure, reducing the risk and severity of floods and drought in the context of climate change), to reducing carbon emissions and ensuring animal welfare conditions (Romanian National Network of Rural Development, 2015). Also, besides the environmental benefits, they can serve as a basis for adding value to agricultural production and the development of local economic activities (Romanian National Network of Rural Development, 2015).

## 6. International acknowledgment: The Biofach Trade Fair

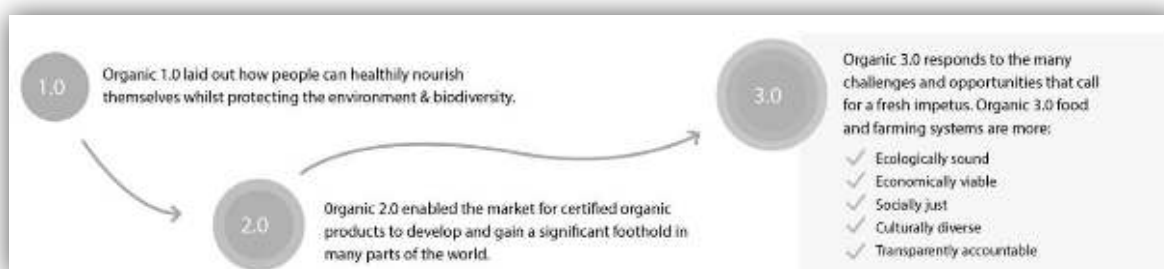
The Biofach Trade Fair is the world's leading trade fair of organic food products in the world. Its location is Nürnberg (Germany) and takes place each year in February. The objectives of this international trade fair is increasing the organic industry and gather buyers and sellers with the main interest in the business of organic (Nürnberg Messe Group, 2015).

The number of global exhibitors between 2010 -2014 grew from 36% to 41% (Nürnberg Messe Group, 2015). From the international exhibitors in 2014, ten of the most important ones need to be mentioned: Italy, China, United States of America, Great Britain/ North Ireland, France, Austria, Netherlands, Switzerland, Spain and Czech Republic (Nürnberg Messe Group, 2015). This year, a number of 2'575 exhibitors were present from 79 countries. From this, 793 were exhibitors from Germany and 1'782 international ones. Also, a significant number of 48'533 visitors from 132 countries joined Biofach Trade Fair (Expodatabase).

## 7. The newest trend: Organic 3.0

Organic 3.0 is a new stage for the organic industry. Organic 3.0 is visible with more challenges and opportunities compared to Organic 1.0 and Organic 2.0 (see Figure 3). The strategy for Organic 3.0 targets six main points: a culture of innovation, continuous improvement towards best practice, diverse ways to ensure transparent integrity, inclusive of wider sustainability interests, holistic empowerment from farm to final consumer, true value and fair pricing (The World of Organic Agriculture 2016).

Figure 3. The need for Organic 3.0



Source: *The World of Organic Agriculture 2016*, p.307

## 8. Conclusions

At a worldwide view, progress can be remarked in the organic farming between 2010 -2014. The ascendant trend is accomplished also with the help of the financial support, which can only aid and stimulate the development of the global organic farming. In conclusion, the ecological agriculture contributes significantly to the sustainable development, to increasing the economic

activities with an important value added and to the rising the interest on the rural environment (Romanian National Network of Rural Development, 2015).

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## Considerations Regarding the Quality Management of Banking Services

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### Abstract

*Efforts that Romanian banking institutions must make to increasing the competitiveness of services are becoming increasingly difficult to sustain and lead to a price - quality ratio to be properly appreciated. Quality of services is the most important aspect in banking too. Banks being aware of the quality problems also lead to the appearance and requirement of some area working standards to respond to requests and expectations on increasing internal or external customer satisfaction and ways that they can become competitive in a market increasingly diversified and demanding. This paper aims to present the key aspects of the quality system , the main operational elements and the sequence of steps for implementing the quality assurance system in banking activities.*

**Key words:** quality, banking, management, system.

**J.E.L. classification:** M10,M11,M19,M21

### 1. Introduction

Quality management has been in vogue in the manufacturing industry for a long time and now services industry makes large investments in this area. Heskett , J.L., in “Service Breakthroughs: Changing the rules of the game ” (NY, 1990), book full dedicated to implementation of quality in service industry demonstrates that quality in this field can be a key to success. The book presents one of the most laconic definitions of quality - "Quality = Current Service = Expected Service" and shows that loyalty and profitability are synonymous. The author says that it is cheaper to handle existing customers than to attract new ones always and studies show that "it is eight times more expensive to restore back a lost customer."(Bowen,2006)

Thus, we can say that in the service sector, both profit and non profit increased the number of successful applications in financial services and impetus behind increased the adoption of programs for quality competition and raised customer expectations. Total Quality Management promotion in the Romanian banking sector could be an advantage both for banks and for the industry as the Romanian banking sector will provide not only an example but a mandate for generalizing the practice in the Romanian economy. This is because in general companies applying at a time Quality Management are forced to maintain their quality standards, to demand the same standards from their suppliers, thus realizing the true nucleation of quality. (Bowen,2006) Adoption of a Quality Management System (QMS) in the bank activity is a strategic decision, which directs and controls the organization in terms of quality, aiming to improve its efficiency and effectiveness, to increase the satisfaction of all stakeholders by meeting their requirements. The design of the QMS should take into consideration the fundamental principles of quality management, the



implementation of which results in building an organizational quality culture and to the improvement of the performance of the bank in order to strengthen the banking market.

## **2. Banking quality management policy**

There are relatively recent items regarding banking area quality management (the years 80s), but researches for constant improvement have proved their importance, especially for the developed states. Quality management banking perspective is extremely interesting, from the point of view of the activities specific, and of the permanent area competition imposition. (Dinculescu, 2011)

Bank policy in quality management is a set of bank's guidelines on medium-term, including general directions, objectives and quality principles applied. Banking quality policy should include the management commitment at the highest level to fulfill customer requirements and continuously improve the effectiveness of the quality management system, and this must be communicated and understood within the bank.

Taking into account the increasing competition between commercial Romanian banks, there is a real problem to come up with new clients or to preserve the old ones. The adjusted number of the banks lead to an increasing competition and to the market banking services' awareness, in order for the „desired quality/issued by the bank” together with the one perceived by the client, to be both taken into account. (Dinculescu, 2011)

The use of quality in banking focuses on strategy and moves the focus from quality to total quality management. While banks understand the value of service quality, getting started can be a struggle. It is about the implementation of the quality process, the need for commitment, and the impact of quality on the bank. The quality process is complex and frustrating at times, but focus is critical. The process begins with top management's commitment to quality. (Appat, 2011)

In recent years, banking institutions have been subjected to intense competition and increased customer expectation. Factors that have contributed to the competition include globalization, advances in technology and changes in government regulations. Quality management is a mechanism that can be used by banks to gain competitive advantages. (Cheng et al, 2010)

Quality must be a management priority. Adopting quality as a bank strategy means cultural change and Quality service comes from inspired leadership. Although much of the research indicates the need for management commitment, renowned quality consultant

A quality strategy requires people and resources. One of the most important functions of the total quality leader is the ability to empower people. Service quality is everybody's business, and effective leaders empower employees to make on-the-spot decisions that are in the customer's interest.

Most bankers would like to believe that banks are in the finance industry, and not in the service industry. Thus they tend to compete in terms of financial prowess rather than service quality.

The lifeblood of any business is its customers. Total Quality Management (TQM), which is about total customer service and continuous customer satisfaction, is applicable not only in the manufacturing industry but in the service sector as well, where the customer is just as important. The banking industry, often the biggest service industry in any country stand to benefit from TQM. In fact, customers in the service industry are more sensitive to service quality and service delivery than in manufacturing because they are always in contact with front-line service personnel. (Domingo, 2003) Due to the emerging need of quality management system implementation in banking industry now is the time for us to move about "paradigm shift." Our commercial banks must pay attention to this shift and start thinking strategically for providing high quality products and services to customers. A primary issue of concern is the need for our commercial banks to work perfectly on the demand of, or response to, its customers' needs. For one basic reason, banks depend on customer satisfaction and loyalty for their survival, but ironically, very few really pay much attention to the plight of their clients - before, during and after, sales. Understanding banking Customer's voice involved a review of contract requirements, discussions with operations and marketing personnel responsible for the accounts that had contractual commitments as well as the discussions with the customer's specific service design personnel. Voice of product design division provides an insight and support for designing a good service quality measuring parameter. The best

quality strategy is to develop life-long customers by continuously delighting and surprising them ahead of the competition. ( Dawn, 2004)

### **3.The quality assurance system in banking activities**

According to ISO 9004-2, customer satisfaction is only possible by harmonizing interactions between:(ISO,2001)

- management responsibility;
- human resources and the resources of the organization;
- the structure quality system.

-Concerning the management commitment -management of the organization will be responsible for creating an organizational structure to enable implementation within the bank management quality system In this purpose will be established in the field of quality policy and medium-term objectives and also will manage management reviews in order to ensure the availability of necessary resources to achieve these objectives. Management analysis refers to the periodic analysis of the quality system, taking into account all sources of information particularly useful, like: the results of analyzes related to the service, efficacy benefit in terms of meeting customer requirements; the results of internal audits of quality system ;the requirements re- resulting from changes in the general policy of the organization, its marketing strategies, etc.

-Staff motivation is particularly important in the case of organizations providing services where the behavior of every employee in the relationship with customers directly influence the quality of the services provided. ISO 9004-2 makes a number of recommendations on staff motivation and development of an internal communication to foster improved quality of service. A first approach towards implementation of the TQM is skill fully designed training programmes. First the bank employees should be imparted training on ISO 9000 systems and cost of quality. These programmes would emphasize the need of excellence in all spheres of management. Promote "teamwork" contribute to improving communication between employees, favoring cooperation in solving of problems. For the services quality assurance there are necessary a number of other resources: financial, material and information resources.

-ISO 9004-2 standard recommends that service organizations to define and maintain such a structure of the quality system to achieve the objectives related to quality of services. To this end, quality system elements must be structured so that all processes impacting service quality to be kept under control, ensuring the permanence satisfying specified. The processes involved in the provision of services and the relationships between these processes reveal the following categories of processes: marketing; design; performance of the service; the results of service provision; evaluate the results of the provider; evaluate the results of the customer; analysis of the performance of the service and taking action for improvement. Consequently, the main operational elements of the system of quality assurance in retail banking to take into consideration are as follows:

- a) quality assurance in marketing;
- b) quality assurance in service design;
- c) the provision of the service.

According to the PDCA cycle, the sequence of steps for implementing the SMI in the banking system are :

1.The QMS planning: appointment and the roles played by employees in the project team; team training courses and specific events for quality.

2.QMS documentation and implementation, which implies consultancy for preparation of integrated documentation and implementation of QMS projected on a pilot area through regional responsibilities of the quality.

3.QMS monitoring- an audit firm specializing diagnostic.

4.QMS improving: implementation of corrective actions and improving the processes documented; certification of the pilot area.

It follows the last stage, the implementation of the QMS by harnessing all systems requirements described in the applicable internationally reference documents . Quality, speed, efficiency, innovation are the main points on which quality programs are designed. All banks are engaged in

same basic banking activities but it is the way of delivery of service that distinguishes one bank from the other.

## Conclusions

In this competitive age, the survival of a business mainly depends upon the quality associated with the product. Similarly, in order to succeed in commercial banking, there is a need to develop an organizational culture based on Quality Management approach where every body is involved in quality enhancement processes and the bank management is keen and fully committed to the satisfaction of both internal and external customers.

In the economic environment, this situation demonstrates the necessity of being different from the competition through a different service which exceeds the expectations through superior quality.

Quality approach in banking institutions means accepting the challenge to strengthen organizational culture on quality management principles. By continuous adequacy of product and financial - banking services to increasingly diversified demands of customers, offered through distribution channels integrated in terms of cost control, it provides support competitive advantage for all stakeholders of the bank: customers, employees, shareholders and society. Quality is a strategic tool in the overall management of the companies currently being identified that one of the factors critical to their competitiveness.

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## The Analysis of Factors Involved in Assessing of University Scientific Research

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### Abstract

*Universities have an important role in the development of knowledge-based society through the contribution in knowledge production, transmission, dissemination and utilization. Universities are called to develop scientific research programs oriented to new directions and priorities in science.*

*University scientific research represents, through its impact on the development of knowledge and human resources, one of the essential pillar of socio-economical development. The growth of innovation capacity, valorization of teaching staff and students' creative capacity by the transfer of knowledge, products and technologies to the economical environment, represent one of the determinant factors of universities' socio-economic role.*

*This work presents the results of a study in which we have analyzed the factors that were involved in assessing the university scientific research, and the importance of these factors. In this study participated university teaching staff from the "Grigore T. Popa" University of Medicine and Pharmacy from Iassy.*

**Key words:** universities, university scientific research, analysis, factors, assessment

**J.E.L. classification:** I 23

### 1. Introduction

It is unanimously accepted that the development level of a society is determined by its educational system, the instruction level of its citizens. The more educated are the citizens of a country, the more able will they be to decide on the future of the society in which they live and develop themselves.

The universities have been deeply modified during the last 50 years. They have suffered several mutations, being converted from elite institutions in leading actors within knowledge-based society. They play three inter-connected roles: knowledge-based production, mainly through research, knowledge transfer through education and instruction, and knowledge dissemination and application through innovation (OECD, 2010).

Universities play a unique role in the development of the knowledge-based society, through the contribution brought to the knowledge production, transmission, dissemination and utilization. The essential role of the university is to form highly qualified human resource, a process that implies a

symbiosis between education and research, the performance of the educational system contributing largely to society development. Well-trained human resource represents an important wealthiness of a nation.

Sustainable success elements of the universities explain why, in the world of globalization, universities are now considered as important national assets. Worldwide governs see them as vital resources of new knowledge and innovative thinking, as suppliers of qualified personnel and credible accreditations, as well as contributors to innovation, attracting talents and international investments in a region, as agents of social justice and mobility, contributing also to culture and social vitality (Boulton and Lucas, 2008).

In the USA, the research universities are vital centers for research performance that advances knowledge from all scientific and engineering disciplines, contributing to the national, regional and local economies. Thus, one of the basic missions of the research universities is that of sites for basic research whose results are published in open specialized literature, the results of the basic university research having to maintain and refill the "pool" of knowledge which industry can draw up (Atkinson and Blanpied, 2008).

The universities have converted themselves in organizations with several goals, which evolves in a more and more complex national and international context, still having an important role at local, regional and national level. The collaboration with the industry and the application of research results have brought additional profits to universities, they being thus able to complete the public financing from national (governmental funds) and regional authorities.

### 1.1. University scientific research

According to Zait and Spalanzani (2006), the scientific research represents a systematic, structured and coherent quest, based on specific and specialized coding systems and an adequate methodology, in order to find what will become novelty, innovation, invention or discovery. The authors specify that the scientific research is defined in the knowledge theory and epistemology as a logic demarche for finding explanations through systematic formulation and testing of some utterance and utterance systems, and the construction, reconstruction, consolidation or development of the theory on whose basis and within which it is realized. Zait and Spalanzani (2006) also add that within the empiric sciences, the scientific research is permanently reporting to facts, events or relations that are part of natural reality and, therefore, it formulates hypotheses, builds theoretical systems and confront these systems with natural reality, with experience, through observation and experiment.

University scientific research represents, through its impact on the development of knowledge and human resources, one of the essential pillar of socio-economical development. The growth of innovation capacity, valorization of teaching staff and students' creative capacity by the transfer of knowledge, products and technologies to the economical environment, represent one of the determinant factors of universities' socio-economic role. Through the specific character of the functions assumed in the society, universities are called to develop scientific research programs oriented to new directions and priorities in science, to manage research teams and schools of excellence. The society must accept the vital role of universities as important enterprise institutions, with an unmatched capacity and a flexible response to many modern problems, largely inter-disciplinary, which strongly attract the best talents (LERU, 2012).

Even if the scientific research and scientific works drawn up for the knowledge advance and teaching improvement are still important aspects of the university mission, the applied research and the activities developed to increase the national competitiveness and to solve the society problems gained an ever bigger importance (Geuna, 1999).

The term *research and development (C&D)* comprises three activities: *basic research, applied research and experimental development*.

**Basic research** represents an experimental or theoretical work carried out mainly to acquire new knowledge that stay at the basis of noticed phenomena or facts, without aiming to a practical application or utilization (Frascati Manual, OECD, 2002).

The **basic research** investigates the basic principles of phenomena. It has a strong potential to redefine our knowledge, to create new explanations, new possibilities and questions. It offers a

generic understanding, which is a "transferable basic aptitude" that can be applied to a much wider range of situations and phenomena than any other catalogue of specific knowledge. The basic research becomes more and more important as the time necessary to pass from the appearance of basic research innovation to its application in new technologies and processes decreases (LERU, 2012).

Besides the fact that the basic research in the universities creates the framework for their educational role, in the case of basic research the universities proved themselves extremely efficient in terms of costs. The explanation could consist in their non-hierarchical nature, the omnipresence of non-conformist young people, open-minded to original ideas, as well as in the extremely competitive nature of most of the funds directed to university research. Unlike them, the specialized research institutes have the funds relatively ensured and can focus on a mission without being distracted by teaching activity or other responsibilities (May, 1997).

**Experimental research and development** (C&D) includes the creative and systematic work carried out with the aim to increase the knowledge baggage, which includes knowledge about man, culture and society, as well as the utilization of this knowledge baggage to create new applications (Frascati Manual, OECD, 2002).

**Applied research** represents original investigations undertaken with the aim to acquire new knowledge. Yet, this type of research is directed mainly to a specific practical objective. **Experimental development** is a systematic work based on the existing knowledge accumulated from research or from practical experience, which refers to the production of new materials, products or devices, the development of new processes, systems or services, or the substantial improvement of those already produced or installed (Frascati Manual, OECD, 2002).

## 2. Materials and method

In the following, we shall present the results of a study where we have analyzed the factors that were involved in assessing the university scientific research, and the importance of these factors. In this study participated university teaching staff from the "Grigore T. Popa" University of Medicine and Pharmacy from Iassy. (UMF Iassy).

We have identified the priority research fields based on statistic data available at local and global health organizations. Knowing this, we propose to verify if:

**Hypothesis 1:** The academic personnel identify *National and international research programs* as the main external factor that influences the research strategy of the universities where they carry out their activity.

"Grigore T. Popa" UMF from Iassy promotes especially those fields in which the members of the academic community have accumulated expertise, and which can benefit of an already existing adequate research infrastructure:

**Hypothesis 2:** The researchers from UMF Iassy identify the *Competence level of the academic personnel* as the main factor of influence of the research priorities of the university in which they carry out their activity.

**Hypothesis 3:** The researchers from UMF Iassy identify *Competence availability at the level of the university academic personnel* as the internal factor that influences the research strategy of the university in which they carry out their activity.

## 3. Results and discussions

Each of the 74 researchers answered a set of questions concerning the factors, which influences the university scientific research.

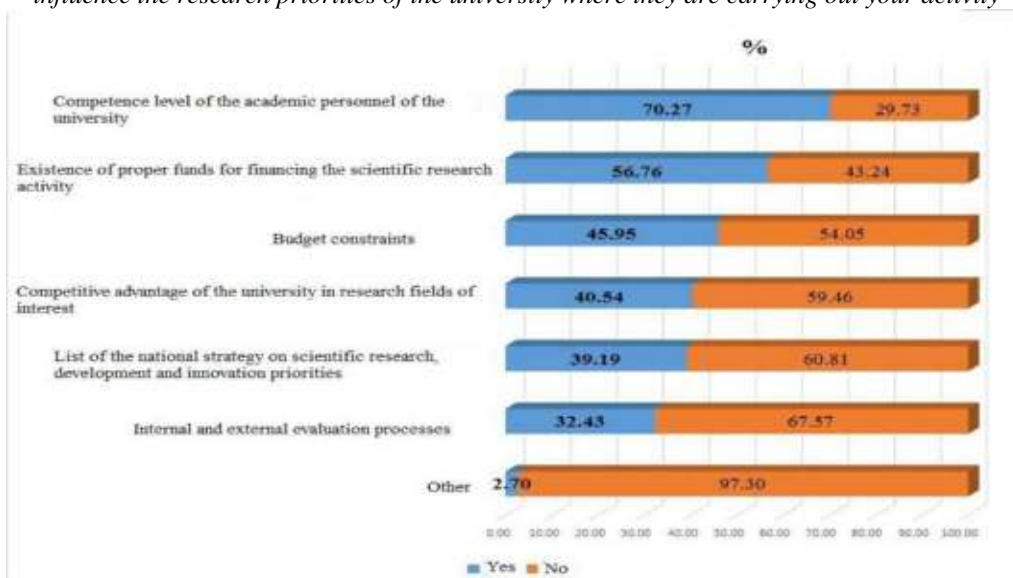
At the question: "**Which are, in your opinion, the most important factors which influence the research priorities of the university where you carry out your activity?**" from the questionnaire, the responding researchers chose, based on their personal opinion, one or more main factors of influence for the research priority of the university. The respondents have also the possibility to complete the proposed list with other variants of free answer.

In the opinion of most of the respondents, the factor, which influences the priorities of university research, is the *Competence level of the academic personnel* (70.3% of the total interviewed persons chose this variant of response). Besides the human dimension, the financial dimension plays a crucial role in the research activity; accordingly, the factors related to research funding and budget increase are essential. One can notice that the factors related to *Existence of the proper funds for financing the scientific research activity* and *Budget constraints* have important weights associated, namely 56.8% and 45.9% respectively. *The internal and external evaluation processes* in influencing the research priorities of the "Gr. T. Popa" UMF Iassy represents the factor less mentioned by the respondents (32.4%) (Figure no 1).

Besides the main factors included in the questionnaire, other factors have been identified based on researchers' responses. One of these factors concerns the human dimension and refers to the *segregation of researchers in substructures and the absence of interaction opportunities*. Still another factor suggested by a respondent concerns *topics with scientific and social impact during the period of contracts/projects development*.

Figure no 1 presents in a graphical form the weight of respondents in terms of the answers offered for each variant of response to the question from the questionnaire: ***“In your opinion, which of the following main factors influence the research priorities of the university where you are carrying out your activity?”***

Figure no. 1. Distribution of respondents according to their opinion on the most important factors, which influence the research priorities of the university where they are carrying out your activity



A series of external and internal factors influences the research strategy of the university. The interviewed persons had the opportunity to choose from a predefined list of external/internal factors, those which, in their opinion, are important for the university where they carry out their research activity. The most important external factors (for which we have recorded a major weight of respondents) are:

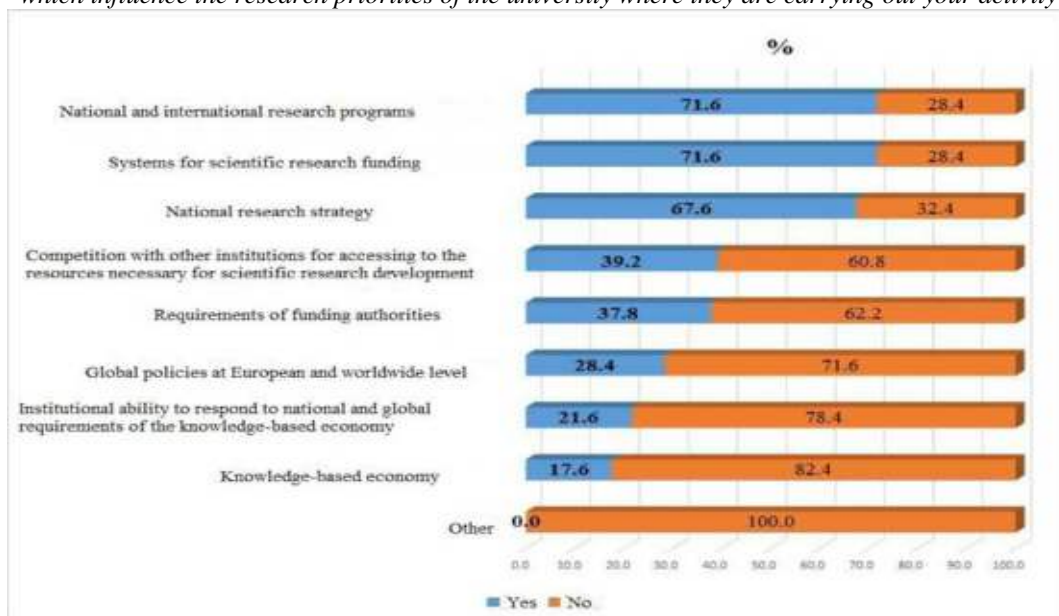
- *National and international research programs* (71.6% of respondents);
- *Systems of scientific research funding* (71.6% of respondents);
- *National strategy of research* (67.6% of respondents).

*The knowledge-based economy* and the *Institutional ability to respond to the national and global requirements of the knowledge-based economy* are the factors less mentioned by the respondents as having an essential influence on the research strategy of the university, recording weights of 17.6% and 21.6% respectively.

Figure no 2 presents the weights of respondents in terms of responses offered for each variant of response at the question: ***“Which are, in your opinion, the most important external factors which influence the research priorities of the university where you carry out your activity?”*** from the questionnaire.

What concerns the internal factors, which influence the research strategy of the university; one can notice the affiliation of the most important factors to two categories: factors related to financial resources (their own or accessed) and factors related to the quality of human capital. Thus, the internal factor mentioned most frequently as being crucial for the research strategy of the university is represented by *funding opportunities* (73% of respondents), while *financial resources of the university* are considered important in the opinion of 52.7% of respondents. From the prospective of the quality of human capital, the *competence availability at the level of university academic personnel*, this is important for about two third (62.2%) of respondents. We have also obtained a considerable weight of over 50% for the factors concerning the policy of recruiting valuable researchers, *recruiting/ preserving the researchers (students, doctoral students, and academic personnel) with important results of the performed research activity*.

Figure no. 2. Distribution of respondents according to their opinion on the most important external factors, which influence the research priorities of the university where they are carrying out your activity

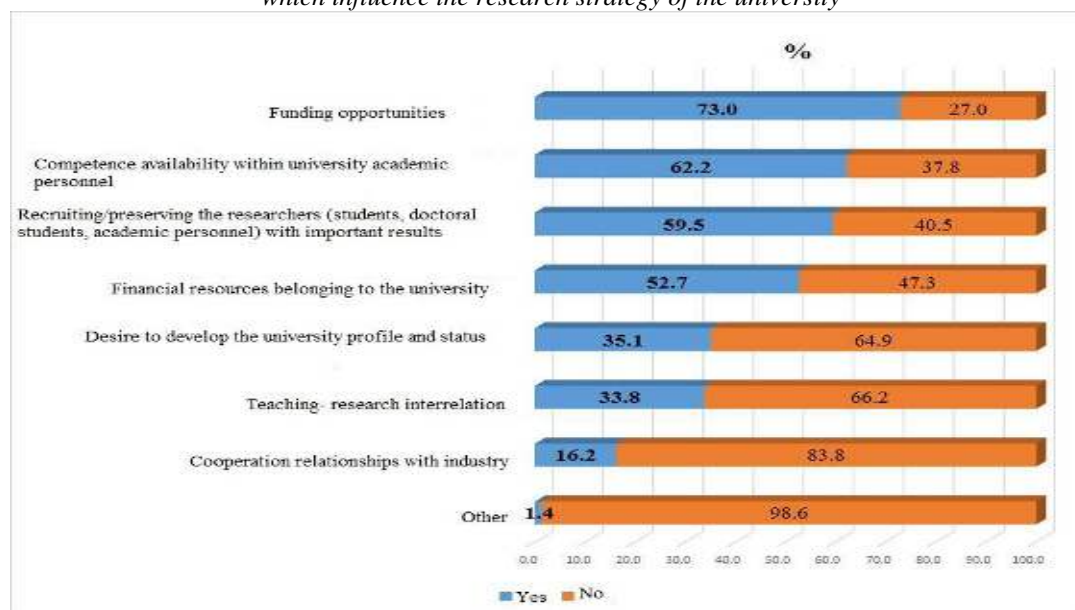


The graphic from Figure no 3 presents the weights of respondents in terms of responses offered for each response variant at the question: ***"Which do you think to be the most important internal factors of influence for the research strategy of the university where you are carrying out your activity?"***

*The relations of cooperation with industry, the teaching-research connection and the desire to develop university profile and status* are the less mentioned internal factors that influence the research strategy of the university, recording weights that range between 16.2% and 35.1%.



Figure no. 3. Distribution of respondents according to their opinion on the most important internal factors, which influence the research strategy of the university



#### 4. Conclusions

Based on their own opinion, the responding researchers have chosen one or more main factors which influences the research priorities of the university:

1. The factor of influence for the research priorities of the university, mentioned by most of the respondents, is *the Competence level of the academic personnel* (70.3% of the total interviewed persons chose this response variant). The obtained weight, net superior to the weight recorded by the other specified factors (of about 56%), identifies the "*Competence level of the academic personnel*" as the main factor which influences the research priorities of the university where the researchers from UMF Iassy are carrying out their research activity", thus validating the **hypothesis 2**.

2. According to the interviewed persons, the most important external factors for research strategy of the university where they are carrying out their activity (identified as factors for which we have recorded the highest weight of the respondents who mentioned them) are the *National and international research programs* (71.6% of respondents) and the *Systems for funding the scientific research*" (71.6% of respondents). The obtained result validates the **hypothesis 1**, according to which the *Academic personnel identifies the "National and international research programs" as the main external factor which influences the research activity of the university where they are carrying out their activity*.

3. The internal factor most frequently mentioned as being crucial for the research strategy of the university is represented by *funding opportunities* (73% of respondents), while from the prospective of the quality of human capital, *competence availability at the level of academic personnel of the university* is important for almost two thirds (62.2%) of respondents. Accordingly, the **hypothesis 3**, through which the researchers from UMF Iassy identify "*Competence availability at the level of academic personnel of the university*" as the main internal factor that influences the research strategy of the university where they carry out their activity, was not validated.

To improve scientific research activity in universities it is a necessary a constant concern to increase the level of competence of the academic staff. To increase the performance of university scientific research is necessary to provide increasingly higher certain amounts for financing this activity. This can be achieved by funding university scientific research from universities' own budgets and developing and implementing university scientific projects funded under national and international scientific research programs.

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## Emotional Intelligence: Requiring Attention

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### Abstract

*This article aims to highlight the need for emotional intelligence. Two methods of measurement are presented in this research, in order to better understand the necessity of a correct result. The results of research can lead to recommendations for improving levels of emotional intelligence and are useful for obtaining data to better compare past and present result. The papers presented in this research are significant for future study of this subject. The first paper presents the evolution of emotional intelligence in the past two years, more specifically its decrease concerning certain characteristics. The second one presents a research on the differences between generations. The third one shows a difference in emotional intelligence levels of children from rural versus urban environments and the obstacles that they encounter in their own development.*

**Key words:** Emotional intelligence, research methods, improvement

**J.E.L. classification:** M20, M50

### 1. Introduction

Since the concept first appeared, emotional intelligence has been defined in many ways. EI gained the reputation of being the ability which allows an individual to master his own emotions, understand and control the emotions of others. The actual beginning of emotional intelligence is even older than it was initially thought. The idea that there are different types of intelligence, with direct connections, was part of the field of study since the beginning. Social Intelligence was first mentioned in 1920 by Thorndike, wanting to set it apart from other forms of intelligence. His statement was that "Social intelligence is the ability to understand men and women, boys and girls - to act wisely in human relations" (Thorndike, 1920). The first time when emotional intelligence was used as a term, was in 1985 when Wayne Payne presented his thesis "A study of emotion: developing emotional intelligence" (W, 1985). After this paper, many researchers and authors brought their own contribution to a better understanding of emotional intelligence. Mayer and Salovey (Mayer J, 1990) defined emotional intelligence through four different skills: the way emotions are perceived, how information is understood, how information is used and the way emotions are managed. Petrides defined emotional intelligence from his perspective, as each person's ability to understand their own emotions (Petrides, 2003), (Petrides, 2004) (Petrides, 2009) Nevertheless, the author with the most popular works is Daniel Goleman. He admitted on his website that his work was inspired by an article written by Mayer and Salovey at a time when emotional intelligence wasn't truly defined and it was uncertain if it's an ingredient of life success. (Goleman, n.d.). Nowadays, when his work is one of the best regarded in this field, Goleman admitted that he's very thankful for the way his work has spread and for the fact that emotional intelligence was embraced by educators and a new area of social and emotional learning (SEL) has been developed. The mixed model of emotional intelligence, as presented by Daniel Goleman, brings into discussion four main characteristics as observed and drawn in the table below from his book "The emotionally intelligent workplace".

*Figure no. 1 A framework of emotional competencies*

	<b>Self Personal Competence</b>	<b>Other Social competence</b>
Recognition	Self-Awareness - Emotional self-awareness - Accurate self-assessment - Self-confidence	Social Awareness - Empathy - Service orientation - Organizational awareness
Regulation	Self-Management - Self-control - Trustworthiness - Conscientiousness - Adaptability - Achievement drive - Initiative	Relationship Management - Developing others - Influence - Communication - Conflict management - Leadership - Change catalyst - Building bonds - Teamwork & collaboration

(Goleman, 1998)

After this period of defining the concept of emotional intelligence, exposing different opinions and reports that proved its utility, researchers started to wonder about the best way to measure emotional intelligence. One of the researchers who brought into attention a model of measurement is Reuven Bar-On. The most recent version of the Bar-On model appeared in 2006 and describes the measurement of emotional-social intelligence. It provides a basis for the emotional quotient inventory which was initially developed to evaluate different aspects of this construct as well as to examine its conceptualization. (Bar-On, 1997b). This model supports the idea that emotional-social intelligence is a mix of emotional and social competencies and abilities that defines how clearly we understand and express ourselves, understand others and relate with them, and handle daily tasks. (Bar-On, 2006) The Bar-On model measures EQ-I by 15 factors and 133 items written as short sentences with a 5-point response scale. (Bar-On, 2006).

During recent research, a new model of social-emotional intelligence measure has been found. It was created by Six Seconds, “the first largest and only non-profit organization dedicated to the development of emotional intelligence” as they introduce themselves. (Freedman, et al., 2016). This type of measurement is a combination of tools that can determine emotional intelligence and help people obtain a framework in order to activate EI abilities. The Six Seconds model is made up of two questionnaires, an assessment of current “success factors” (e.g., effectiveness and relationships) and the EQ measure. This model has already been used for a serious number of articles and reports and it is development focused, statistically reliable, internationally developed and validated and convenient (online administration). (Seconds, n.d.) .

It is well known that there are many other models for measurement, but for this specific research the description of these two is enough in order to emphasize on the development of emotional intelligence on specific criteria.

## 2. The necessity of emotional intelligence improvement

In the past years, the attention gained by this subject raised the standards of emotional intelligence abilities. Numerous classes, courses, trainings and coaching appeared as a consequence. The tests described above, as Bar-On or the one provided by Six Seconds, are the kind of tests that can offer the detailed level of EI in a person and compare it from one to another. Also, after these tests are applied, some recommendations can help that person improve where there is a lack of ability.

As mentioned earlier, the Six Seconds organization started to assess emotional intelligence all over the world. They released a report that presents the results of 100,000 people assessed in 126 countries and the trends observed during these tests. (Seconds, 2016). According to this report, since their last evaluation in 2014, the level of emotional intelligence declined and important losses have been remarked in the way people maintain their emotional balance (a decrease of 3.3%), intrinsic motivation (self-motivation) (a decrease of 2.9%) and empathy (a decrease of 2.4%). One positive aspect is that people started to think more before acting, and from this point of view there was observed an increase of 0.6%. (Seconds, 2016). The same report illustrates the characteristics that differentiate people in their jobs. These are considered talents and it is stated that each job shall be performed by following these three talents in employee's capabilities. For example, for education the three requested talents are imagination, risk tolerance and entrepreneurship; for healthcare prioritizing, collaboration, imagination etc. (Seconds, 2016).

In a gender comparison, the report published by Six Seconds, shows that there are differences between men and women according to their top 5 talents. Women's talents are reflection, data mining, emotional insight, prioritizing and design, while men's talents are problem solving, risk tolerance, critical thinking, commitment and vision. This report concluded on this topic that women are stronger than men in some emotional intelligence competencies, completing each other in this regard. (Seconds, 2016).

In another research published by Anisa Gul Bhatti, the differences between men and women, on a general level, have been compared. The test of this research was conducted on 100 respondents answering 33 questions with yes or no regarding perception of emotions, emotions used in order to manage thoughts, understanding emotions and managing emotions. The result of this study was that there is no difference between men and women on a general level of emotional intelligence. (Bhatti, 2013).

Emotional intelligence capabilities were measured on three generations in order to understand the differences between them, in a research published in the *International Journal of Advanced Multidisciplinary Research and Review*. The three authors of this research used the interview as a research method and obtained 216 answers ranging on a scale from 1 to 5. People participating in their research had to define their generation depending on their birth dates. (Akduman, et al., 2015). Their conclusion was that emotional intelligence isn't different from one generation to another, but each generation has its own values which is why some differences of perspective or emotions management can be observed. The authors also mentioned that the research is limited in respondents to people of Istanbul. (Akduman, et al., 2015).

Another study investigated Socio-Emotional Intelligence (SEI) in Colombia for primary education children delimiting the setting (rural vs. urban). The authors involved 1451 students, in fourth and fifth grade. (Lucía Herrera, 2015). The method and instrument chosen by the authors was the Emotional Quotient Inventory: Youth Version. (Bar-On, 2000). A clear difference between the students has been found. The tested abilities were general mood (positive attitude), intrapersonal dimensions (understanding of your own emotions and sharing them with others) and stress management (the ability to recognize one's emotions and control them). (Lucía Herrera, 2015) The authors of this research support the idea that there are differences in emotional intelligence levels between children from rural and children from urban environments due to life conditions. The ones from rural environments are not well trained, their educational materials are not of a high quality and their need for infrastructure, activities with educational purpose, food, medicines and teacher incentives are the factors that influence their emotional intelligence development. (Lucía Herrera, 2015).

### 3. Conclusions

As observed from the literature review above and from the case studies analyzed, a conclusion can be drawn regarding important elements of emotional intelligence development. There is a continuous need for development and research in this field, adding or removing elements that can relate emotional intelligence with all the domains in which it is applied. Improving research methods or using the methods already available, the research reflects the validity of the proposed question.

The case studies presented used different correlations between emotional intelligence and gender, generation or rural versus urban environments in order to better understand the need for emotional intelligence development. A new research opportunity has been identified through the presented perspectives, namely a comparison between generations in Romania, as well as including results from the rural and urban environments, that can make a difference in emotional intelligence.

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## Inter-Connected Roles of the Ship, Seafarers and Ship Management Company

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### Abstract

*The activity of shipping plays a strategic key role for the development of international trade. A remarkable increase in the seaborne international trade would not have been possible without the important role of the ship and of the seafarers, both perceived as basic elements for developing an efficient ship management. Ship management in general and in particular the third-party ship management contributes to restructuring shipping business. This paper emphasizes the inter-connected role between ship, seafarers and the ship management company for the wealth of the shipping business.*

**Key words:** seafarer, shipping, employee, navigation, international trade

**J.E.L. classification:** R41, R49, O15

### 1. Introduction

The seas and oceans represent a huge potential for commercial activities. The fact that oceans and seas (as well as rivers, waterways and estuaries) matter for sustainable development is undeniable. Two thirds of the Earth’s surface is covered by water. Without oceanic and sea routes, globalisation as we know it would not have been possible (UNCTAD, 2014, p.1 and 13).

Water transport is cheaper and less polluting than road transport than rail transport and even do not require large expenditures with investment in infrastructure such as roads or elements of railways and the most efficient solution is to transport large quantities of goods. As a result, maritime transport has experienced rapid growth and diversification over time. With increasing global tonnage diversified, specialized and perfected types of vessels, facilitating job board and an enhanced safety for cargo and crew. The introduction of automation on board led to a series of changes, both in terms of crew size and the organization and conduct of work.

According to A. Branch, ship management is “a many-faceted exercise designed to produce the best results from the resources invested and to take advantage of the opportunities that present themselves” (Branch, 1982, p.129). In 1957 the first third-party ship management contract was signed between a shipowner and a professional ship management company and since then, third party ship management business evolved into an industry in its own right (Mitroussi, 2004, pp.31-45). G. Sletmo even considers ship management as the fourth wave of maritime transport (Sletmo, 1989, pp.293-303).

Ship management requires a thorough organization of activities which mainly reflect the ongoing performance of transport like eliminating idle time reduction of loading / unloading, repair, parking, analytical records of revenues and expenses of any kind from ships so as to avoid wasteful expenditures, implementation of economic activities planned for each voyage and permanent economic analysis of future supplies and of human resources necessary (crew and onshore employees) for ship operation.

## 2. The role of the ship for international trade

At the beginning of the year 2015, the world’s commercial fleet, in total, consisted of 89,464 vessels, with a total tonnage of 1.75 billion dwt (UNCTAD, 2015, p.x). The figures reflects a huge development in international seaborne trade and in shipping. Below is represented in Table 1 a comparison between international seaborne trade in millions of tons loaded, between the years 1970 and 2014. For oil and gas cargo, the loaded quantity doubled in the period of 44 years, while for main bulks, like ore, coal and grain, the loaded quantity was multiplied 6 times. In the case of other dry cargo, the loaded quantity increased more than 5 times. The total value of all cargoes loaded increased approximately 4 times, in less than half a century. This information suggest that international seaborne trade has a continuously increase and a seafaring is a key element for the international trade.

Table 1. Developments in international seaborne trade, selected years (millions of tons loaded).

Year	Oil and gas	Main bulks*	Other dry cargo	Total (all cargoes)
1970	1 440	448	717	2 605
1980	1 871	608	1 225	3 704
1990	1 755	988	1 265	4 008
2000	2 163	1 295	2 526	5 984
2005	2 422	1 709	2 978	7 109
2006	2 698	1 814	3 188	7 700
2007	2 747	1 953	3 334	8 034
2008	2 742	2 065	3 422	8 229
2009	2 642	2 085	3 131	7 858
2010	2 772	2 335	3 302	8 409
2011	2 794	2 486	3 505	8 784
2012	2 841	2 742	3 614	9 197
2013	2 829	2 923	3 762	9 514
2014	2 826	3 112	3 903	9 842

Sources: UNCTAD secretariat, based on data supplied by reporting countries and as published on the relevant government and port industry websites, and by specialist sources. Data for 2006 onwards have been revised and updated to reflect improved reporting, including more recent figures and better information regarding the breakdown by cargo type. Figures for 2014 are estimated based on preliminary data or on the last year for which data were available.

\* Iron ore, grain, coal, bauxite/alumina and phosphate rock; the data for 2006 onwards are based on various issues of the *Dry Bulk Trade Outlook*, produced by Clarksons Research.

Source: UNCTAD, *Review of maritime transport 2015*.

Such remarkable increase would not be possible to meet unless an emphasized focus had been placed on the ship and on the seafarers, both perceived as key elements for developing an efficient ship management.

## 3. The role of the ship for the ship manager

The ship is considered the basic economic unit in shipping and in ship management, because it is the main means of transport that performs direct operations, loading / unloading freight and other related operations. While performing these operations directly, the ship is the basic mean of acquiring income in the shipping process (revenue from freight) while, in the same time, spending it (by despatch and expenses charges, demurrage, penalties etc.)

The shipping industry can be divided easily into various interest groups: seafarers, shipowners, shipbuilders, bankers, brokers etc. Each of these groups has its own distinct interest to see private sector interests, which are often influenced by individual interests of another group. For example, the vessel owner sees as a tool for profit, which depends on the efficiency of the conduct for which the tool was designed by shipbuilders. The technical ship management function is critical for maintaining a profitable and well respected shipping venture. Ship managers control or influence a large part of shipping expenses affecting the quality of charters, the quality of crew, the quality of suppliers and the owner’s reputation, which in turn, affects the cost of capital (Wallace, 2016).



For banking institutions, profit is directly dependent on how quickly and how effectively ship owners negotiate conducting voyages. However, both the owner and the banking institution are aware that market fluctuations can cause large-scale changes in the rate of profit-loss per voyage.

#### **4. The role of the ship for the seafarers**

The seafarer sees the ship in a different way from the two above, the ship being the space where he/she works and lives for a certain period of time. Seafarer's perceptions regarding ships are based on very different views from the owner, since the seafarer is interested in the challenges of this job, the way daily life will pass on board and the behaviour of his colleagues and superiors.

People work a simple reason: to survive. There are three main reasons why people find work as necessary: money, security, satisfaction and status. Each individual has own priorities. For many seafarers, seafaring is a job and an income. For others navigation is a passion, a duty, an ideal or a goal in life. If a seafarer chose this field of work, hoping for a substantial gain, another one may chose seafaring to advance hierarchically in a leadership position as master or chief engineer or in other cases seafaring is chose due to the satisfaction that the job brings out.

We must emphasize, though, that seafaring is a particular job and can hardly resemble onshore jobs. Being a seafarer asks individuals to leave family home and spend considerable time (2-6 months per voyage) working and socializing with a group of individuals (the crew) in a limited space (the ship). Therefore, over time maritime crew life has undergone some changes, occurring difficulties related to the migration of seafarers ashore from the sea. Life at sea has always been regarded as an adventure in which enthusiasm played an important role, but with time, seafarers have been driven by the desire to be near their family. Today, once travelling became much more affordable, people that are not fully satisfied with life at sea begin to lose interest in seafaring as a long term career.

By sea, most seafarers are isolated from society for long periods of time. Also, seafaring may be considered a career with a high degree of risk. It is a job that requires knowledge of a specialized language and access to a particular system of knowledge. It is a way of life that meets no national boundaries. In such conjuncture, interconnection of seafarers on board ship is a common aspect, even when they come within multinational crews, regardless of their place of origin. This partly explains why seafarers will continue such interconnection after they decide to stay on shore. They will often be welcomed into different jobs on shore where they will stay in contact with other former seafarers or where they will work for other seafarers.

Compared to on shore work places, seafaring is much different, and a ship manager should take this into account when will judge the employment and work relations between the company and the crew members. Many people in the on shore industries spend a number of hours to work and they return home every night or at least every weekend. Outside office hours, people on shore are free to go wherever they want, to do what they want and to meet who they want. This does not apply in the case of seafarers. They work, eat and meet every day with the same group of people for weeks or months. For this reasons, conflict situations may appear on board ship and, even if it is the master's or chief officer duty and responsibility to solve any conflict of this kind, inter-personal conflicts and their causes should be reported to the ship manager on shore.

The explosive rate of maritime technology changements resulted in technological processes and less uniform procedures. This is a strength of the seafaring sector because, since 1951, was known that workers who experience irregular events, are more motivated and performance is higher when they are free to take their own decisions (Pelz, 1951, pp.49-55).

From another perspective, even since 1957, the ships were considered “total institutions” (Goffman, 1957, pp.43-93) with following particularities:

1. All aspects of life on board are engaged in one place and under one single authority.
2. Each activity takes place within the company of the same crew where all members are treated equally and where everyone expects to be given the same tasks.
3. All phases of the daily routine are scheduled in detail at a clearly specified time period; the entire program is based on a set of rules established by the higher authority.
4. The contents of all activities are considered a part of a general universal plan and should lead towards the goals of the shipping company.

5. A structure with two classes occurs in the majority of total institutions and this happens also on board. This may be seen from the point of view of the ratings and officers, or from the point of view of deck department and engine department, both essential for the safe operation of the ship.

6. If in the case of a job on shore, employees receive their monthly salary and they are able to spend it as they wish, in seafaring the salary is received either by the family of the seafarer, on shore, either by the seafarer while on board, but the seafarer has very less time to spend the salary when the ships waits in a port. Often, although the ship arrives in port, seafarers have to undertake a series of activities on board and might not be allowed to leave the ship.

7. Instead weekly or monthly payment, many sailors receive their salary at the end of the voyage and this leads to “forced” savings.

8. On some ships is coercive demanded expressive sign of respect to the master or superior officers.

9. Sanctions and penalties are imposed for a variety of situations related to equipment, appearance, behaviour etc.

10. For newcomers (the cadets) might be performed some form of initiation aiming for them to realize that they are on a lower hierarchical level.

11. On board ship is used institutional slang or jargon, characteristic for the domain and the scope of the work involved.

12. Persons in charge (master and higher ranked officers) might develop a “theory of human nature” that justify their social distance from the rest of the crew members..

13. It is difficult for a crew member to escape from the network of constraints (eg in the case where a motorist found the right solution for a problem but his superior, the chief engineer, sees another solution completely different and request him to act accordingly).

14. One of the roles of officers is to protect the institution of the employing shipping company and the standards of the company, in front of the crew members and this might put them in a conflict situation. For example, deck officers get their hierarchical advancement degree due to the decisions of the on shore shipping company and therefore they might not want to hear the ratings complaints expressed against the company.

15. Some crew members find justifications for keeping social distance to other crew members placed on a lower hierarchical level. This can be explained by the fact that, in their view, any close relationship may result in loss of respect for authority. Often master or officers are more concerned with seafarers who do not show respect than with the ones who do show respect but do not perform their duties properly. This is a characteristic of authoritarian structures that perceive respect as an attribute of the person in charge.

Other characteristics of the ship, seen as a total institution, are the lack of initiative of existing crew, superficiality of personal contacts, labelling people only due to profession, not for the personal and professional skills, rejection of the physically unfit persons, which are blamed for the crew overtime work. Decisions master are often considered infallible and accurate, otherwise the company will be informed of any disciplinary situations and any behaviour issues will be registered on the seafarers’ documents. Another issue that may rise concerning seafarers problems is the lack of tolerance for religious or political views, especially in the case of multinational crews.

On board ship, there is a tendency for a person without self-confidence, which is placed on an authority position, to behave inappropriately with subordinates.

Temporarily can be formed rival “groups or “gangs”. Some crew members might invent stories or tricks to their colleagues, when the boredom feeling appears during long journeys, and such actions might raise antipathies. In other cases, personal responsibility is avoided and the shipping company or the ship manager is accused for establishing certain standards, without taking into account that such standards might be imposed not by the employee shipping company but by the customer (the charterer or the carrier). Often companies like “oil majors” conduct audits on-board and such assessment situation induces a state of alert within the crew

Superior officer’s or master’s decisions are considered irreversible and once the decision has been communicated to the public, it is considered that any withdrawal of it, even if justified, would affect the status of the issuing authority.

Any occasional insecurity occasioned by the hard voyage conditions entails respect or even fear of the authority as long as people in authority are perceived as being responsible for the crew’s and

vessel safety. But once the ship reach the port, the state of certainty reappears, and the crew may experience tension and explosive indiscipline.

Lower hierarchical staff like cadets, ratings or of lower rank officers might be perceived as irresponsible or incompetent and in some cases they can be shown an abusive inappropriate behaviour by their superiors.

Not all the issues mentioned above are met on all the ships, but many of these can appear in different forms, on most ships. It is essential that the ship is considered part of the shipping company's organization and not an isolated asset. Also, the ship manager should consider crew members and employees as elements of human capital and an essential part of the business.

## 5. Conclusions

Although there is a technical progress in every type of transport, ships remain the primary means of transport in international trade. For them to be operated properly, a significant attention should be focused by the ship manager not only on their maintenance but also on those who drive ships and make them work, commercially. The ship manager should demand for consistent reports regarding technical and social issues that may appear on board ship. The ship should be considered part of the shipping company's organization and not an isolated asset and crew members and employees should be perceived as elements of human capital an essential parts of the shipping business.

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# The Contribution of the Human Resources Information System to Human Capital Performance Management within the Organization

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## Abstract

*Most of the management specialists evoked the manner in which informatics sustained the human resources structures in their efforts of emancipation, considering it a factor of progress through its positive effects on productivity, of service improvement and quality decisions, of connection strengthening, of delegation of competences across the entire enterprise and in increasing their forecast capabilities.*

*The development of relations between management and human resource information system in its search for organizational performance allows to better understand their past and present and the anticipation of future developments which are beneficial for the enterprises that want to better face new challenges such as quality concepts, social responsibility and sustainable development. Such an approach is the subject of this paper which aims to reveal his way of emancipation of the human resource function and the manner in which participation may rely, i.e. quantifying and increasing the added value to your business.*

**Key words:** human resources, information system, newly created value, performance, measurement

**J.E.L. classification:** M12, M5

## 1. Introduction

Computerization is generally perceived as an organization action that corresponds to a particular inventory and management objective. In management, the same set of tools can produce different results, depending on the ways they are set into practice. The quality of an approach is just as crucial as the tools that are being used. Therefore, from the perspective of the inventory specialist, it is not information science, but computerization that matters the most, namely the action of automating the set of operations of a particular activity in the aim to achieve better efficiency. Any information system consists in both formal and informal components. The formal information system is visible by means of the documents it generates by applying explicit rules and procedures. As far as the assignment of organization roles, functions and tasks are concerned, the information system is less dependent on the individual. The informal information system, which is just as crucial for the enterprise, leaves less visible traces and focuses on looser rules and implicit procedures.

Should the expansion of information science within a particular field of inventorying face any difficulties, this is due to the efforts of extending the formal portion of the information system. This extension involves reflecting carefully upon the best ways in which to organize, and more importantly, to clarify and access information and the operating rules. Automation also involves promoting an action of change. The automation of human resources activities has a specificity of its own, in the sense that the information on individuals cannot be treated the same as information on objects given the existing rules of confidentiality that protect them.

## 2. The human resources activities and their corresponding data processing applications

In the recent years tendencies reveal the pursuit of enterprises to achieve the highest level possible in human resources management, owing to a more intensive integration of its activities and functions and to the contribution of new information and communication technologies.

Typical human resources programs integrate aspects such as financial bookkeeping, recruiting, selecting, training staff and the relationships with and between employees, as well as financial compensation but, not all these programs entail multiple activities, and the human resources activities can be classified into basic categories: transactional, traditional and transformational (Wright, McMahan, Snell and Gerhart, 1998, in Vărzaru, M, Vărzaru D.C, Ogarcă, R.F, 2014). Transformational transactions enhance the strategic importance and the exposure of an organization’s human resources function. As illustrated in diagram 1, this gradual change becomes gradually more apparent as one follows the historical evolution of the operation and the human resources management throughout the five stages of the industrial advancement in the USA.

The majority of human resources departments spend around 65–75% of their time carrying out transactional activities, 15–30% carrying out traditional activities and 5–15% carrying out transformational activities, was estimated by Wright et al. (1998). The main advantage of designing, developing and implementing a human resources information system consists in the ability to save time when handling transactional activities, so allowing the employed staff to allocate more time to traditional and transformational activities. Regarding the mission of human resources management, Ulrich (1998) assigns to it four fundamental roles: strategic business partner, administrative expert, champion employee and exchange agent.

Figure no. 1. The historical evolution of human resources management

**The role of human resources management**

<b>The beginning of the XX century</b>	<b>The XXI century</b>
Decision maker	Strategic partner
Focused on the employee Recordings	Cost efficiency Staff development

Source: *New mandate of human resources*, Harvard Business Review, Vol. 41, No. 1, p. 126

Ulrich, Younger and Brockbank (2008) emphasize the fact that in the XXI century the human resources function should operate as a business within another business. To achieve that, it becomes necessary for the said function to place its activities in the background in order to focus on results, capabilities and its own structure so that it can achieve the most accurate projection possible for that particular business.

Gilbert (2003) considers that the procedure of automating the processes specific to the human resources function remains within the reach of traditional and transactional activities, while the efforts to involve it in the realm of decision-making, although intensive, have failed so far to produce the anticipated outcomes. When describing the applications characteristic to management automation and human resources administration, the author accounts for three distinctive groups, namely the generic ones: the internet, the intranet and the decisional instruments.

**3. The evolution of the human resources- human resources information system tandem**

An analysis of the studies conducted in the last 10 years reveals that a large majority of authors envision the different evolution stages of the human resources information system based on a similar temporal pattern. According to Just (2010) it is possible to draw the history of the human resources information system by means of two courses of evolution. The first one is the evolution of human resources management, the second one is the automation of the human resources function. Furthermore, Silva (2008) adds the evolution of newly developed information and communication technologies.

Just further classifies the evolution of the human resources function into seven different stages, starting with 1870-1900 (it is the owner who exercises the function, which doesn’t exist in its classic sense), 1900-1914 (the emerging of the function, Taylor), 1914-1918 (the development of social regulations, training, recruitment, apprenticeship), 1918-1945, 1945-1960 (the thirty glory years), 1960-1980 (social legislation continues its development, other aspirations emerge among the population – communication and fulfillment, the pursuit of work satisfaction), after 1980 (an increasingly strategic function owing to the decelerated pace of the economic growth, the development of international competition and technological mutations; the function is perceived as being strategic and, in order to accomplish its goals, it needs to work with the operational responsible persons).

Just (2010) suggests drawing up a parallel between the evolution of the human resources function and the evolution of the human resources information system:

*The stone age:* the payment program. In 1960, the computer replaces mechanography. Between 1970-1980, the users become better acquainted to information science and begin to orders. During this period, there emerge the first parameterizable applications and the payment package.

*The bronze age:* the human resources program. In the mid 90's there emerge new problems along with the increasing complexity of handling payment. The payment has to be fed through other peripheral systems and the editors diversify their offers by enriching them with innovating processes. There emerge inquiry instruments and the era of information science culture begins. By the 1990's, payment handling has made significant progress, and so has the management of time and activities. The administrative management of the staff represents the driving force of the human resources information system. Training is the new resultant.

*The iron age:* the human resources information system. Starting with the year 2000, there emerge two types of architecture within the enterprise: the individual program or the merging of multiple specialized programs by means of a common interface. These two architectures enable, either in the same manner or by different approaches, the managing of the integrality of human resources processes. This point in time marks the dawn of the “e-human resources” era, which opens up the access for new different actors. By the year 2000, new driving factors come to revolutionize the world of the human resources information system: the fear of the demographic shock and the uncertainty of resuming the activity. This last tendency drives the leadership of human resources to become involved in employee mobilization, which goes through a stage of better understanding competencies. Consequently, the difficulties posed by the recruitment render internal mobility as an important priority.

*The gold age* is currently in progress, although numerous uncertainties arise. As the human resources information system has been explored and harnessed to its full potential, technological breakthroughs still emerge, which will continue to unsettle the function. The new requirements are now connected to the communication possibilities through an increasingly complex interface. The answer to these requirements is likely to come from the service-oriented architecture (SOA), i.e clipping the functionalities of an application or a system into “profession/position (job)” services that can be reused as part of other applications or systems.

New horizons for the human resources information system are brought about by its capabilities to open up to a multitude of actors. At first the human resources information system was accessible only by trained users and now its “open” variant is on the brink of becoming a system that can be accessed by everyone. Kavanagh (2013) offers a retrospective in terms of the stages retained in the historical evolution of the human resource management and its information system. The analysis encloses the development of human resources and the means of information and communication in terms of their evolution and interconnectedness since the beginning of the XX century. She describes the way in which the information and communication technologies have played an increasingly important role in the management function and in managing human resources.

1. *Before the World War II.* At the beginning of the XX century and the Second World War, the personnel function was limited to holding a basic inventory of staff information. The law initiatives in the field were scarce, so that the leadership departments of organizations drew up the employment terms and the work practices and conditions themselves. Some employers set the grounds for social work (labor welfare) and established administrative departments to defend the interests of the workers by recording information on healthcare and safety, but also on working hours and payments (Vărzaru, D.C., Vărzaru, A.A, 2015). We have to acknowledge that the written bookkeeping is one of the major functions of the human resources information system, since at that time there was no computer technology to assist in registering data. Recordings on paper, which many small companies still employ today, were widely spread.

2. *The 1945-1960 period.* There was the need to categorize the large number of individuals in the military service during the war, which emerged into occupational categories, undertaken to improve the process of recruitment and the selection of procedures. The main aspect of these classification systems was the job description, which could also be used to design adequate repayment programs, to assess the performance of each individual and to provide a basis in the event of a potential separation from the individual. The labor unions, which were established as a response to the often abusive work practices before the war, led to the issuing of a sensible number of labor laws in the USA, so that the staff departments began to carry out more record and reporting work to satisfy the requirements of government agencies (Vărzaru, D.C., Vărzaru, A.A, 2015).

The staff department began to maintain an increasingly larger number of employee records, and the information science technology was being considered as a potential solution to recording and gathering information about the employees. In some cases, for instance in the defense industry, the job analysis and the

classification of information were being compiled into computers in order to better understand, plan and make use of the abilities of each employee according to the needs (Vărzaru, D.C., Vărzaru, A.A, 2015). During this period, the staff structures outside the defense industry usually only used electronic computers for billing and inventory control. These computers were rarely used inside the staff function, with the exception of setting up payrolls.

3. *The 1963-1980 era.* The increasing number of law implementations for regulating the labor law in the USA led to a burdening of the staff structure with the additional responsibility of conformation, which involves efforts of collecting, analyzing and reporting huge amounts of data to the state authorities (Vărzaru, D.C., Vărzaru, A.A, 2015). Therefore, it became mandatory the need for automating the processes of data gathering and analysis reporting. The staff compartments were being gradually referred to as human resources compartments, which marked the emergence of the human resources management field. However, the pace at which the staff compartments were adopting computer technology was slow, despite their cost-effectiveness compared to the computation power they offered by storing and accessing information on the employees and their capability to generate efficient and effective reports specific to information management systems. During this period the main obstacle in the development of HRIS mostly consisted in the need to identify an optimal method for the implementation of such systems, and less in the necessity of such systems or their technological capabilities.

*The age of profitability (1980 – the beginning of the 90's).* On the premises of the intensified competitiveness of the asian and european economies, the companies in the USA and other multinational companies focused increasingly on the reduction of costs by means of automation measures, as well as other measures aimed at boosting productivity. To the managerial level there emerges a belief that the entirety of human costs represents a substantial segment of a company's budget. Certain companies estimated that their personnel costs rose up to as much as 80% of the operation costs amount. Consequently, there was a clear need for the human resources management to be able to justify effectively the costs attached to the human resources function (Vărzaru, D.C., Vărzaru, A.A, 2015).

*The age of technological progress and the emergence of strategic HRM (1990 to the present day).* The economic context suffered radical changes over the entire decade of the 90's, since the intensified globalization tendencies, technological progress and hypercompetition. From that point on, organizations have become aware of the fact that innovative and creative employees, which hold the key to the organizational expertise, represent a sustainable competitive advantage (Vărzaru, D.C., Vărzaru, A.A, 2015). This happened because, unlike other resources, they represent a type of capital difficult to replicate by the competition. Therefore, HRM become strategic owing to its importance and to the perspectives that opened up for it, and focuses on attracting, maintaining and using professional talent. These breakthroughs led to the creation of balance scorecard-based performance assessment systems (Becker, Huselid & Ulrich, 2001; Huselid, Becker & Beatty, 2005), which greatly emphasize the importance of the return-on-investment factor in human resources and its corresponding programs (Cascio, 2000; Fitz-Enz, 2000, 2002). Reflecting this perspective centered on resources, Becker and Huselid (2006) point out to the importance of the human resource structure and its system, as well as “the systems, methods, competences and the performance-centered conduct of the staff, which reveals the development and management of the company's strategic human capital” and its importance in achieving organizational performance.

The present context constitutes a crucial element in human resources management. Because of that, researchers have been focusing increasingly on the “best-fit” approach in the strategic human resources management as opposed to the “best-practice” approach. The success rate of the strategic human resources management depends on a number of factors, including the national and organizational culture, the size of the organization, the type of industry, the occupational category and the business strategy. Becker and Huselid (2006) are of the opinion that “the main prerequisite for the human resources management to contribute in achieving competitive advantages consists in the agreement between the human resources architecture and the strategic abilities and processes that translate the business strategy into practice”.

#### **4. Assessing human resource performance- the contribution of the human resources information system**

Another crucial issue pertaining to strategic human resources management consists in adopting and using business performance measuring systems in the field of human resources (Cascio, 2000; Lawler & Mohrman, 2003). Every department of an organization (production, marketing, financial, etc.) has been using performance measurement systems for decades due to the nature of their business transactions. As far as the human resources management is concerned, however, the focus on measuring the cost-efficiency of programs is a relatively new issue. Although business performance assessment systems have only been used

in recent years, they have been spreading widely and have gained a lot of importance in the field of business, as organizations are becoming increasingly preoccupied with competing efficiently on a global level.

Kaplan and Norton (1996) have contributed to the popularization of the concept of BSC performance assessment, which is not limited only to the traditional financial measurements for assessing the performance of the company, but also cover for internal and customer-oriented processes and for the prospect of building professional abilities. Integrating the criteria of the approach centered on BSC performance measuring instruments, Beatty, Huselid and Schneier (2003) have developed assessment instruments that are specific to the field of human resources, in order to achieve turnkey deliverable products for the specialized structure (workforce mentality, technical knowledge and workforce behavior) by aligning, integrating and precisely classifying the human resources systems.

Furthermore, Lawler, Stevenson and Boudreau (2004) have identified three types of business performance measuring systems with a crucial role in assessing the human resources function. The first type refers to systems for measuring efficiency, which are aimed at assessing the specific “time to fill” tasks – the time resources needed to fill existing job vacancies. The second type refers to systems for measuring effectiveness, which target the human resources practices with a direct influence on the costs involved by filling existing job vacancies. The third type refers to system for measuring the impact of human resources programs and practices focused on fulfilling the general objective of developing and optimizing workforce abilities and competencies. The latest development in terms of measuring systems pertaining to the role of human resources as part as strategic human resources management consists in deploying Six Sigma information systems processes. In general, the Six Sigma method refers to streamline the operations through business process, and it's structured on five key-process- define, measure, analyze, improve and control (DMAIC). DMAIC approach uses a diversified set of statistical tools to improve the upgrading processes, the decision-making function, i.e the customer service. In terms of estimating the benefits and the impact of SIRU on an organization, traditional accounting methods are not compatible with the function of human resource management (Becker et al., 2001; Cascio, 2000; Fitz-Enz, 2000, 2002; Huselid et al., 2005; Thit, 2004). Although implementing a SIRU entails a number of tangible benefits, such as a high degree of efficiency across from the employment and a reduction in labor costs due to automation, there is also the intangible or hidden benefits (Roberts, 1999). These include customer satisfaction by rationalization and efficiency of HR processes, i.e the exemption of human resources department from the routine administrative issues to focus on strategic goals.

Just (2010) proposes another method, which is based on return on investment, a purely financial approach, often used to validate a project by comparing project costs with revenues and future productivity gains. If case of human resource information system, however, is particularly difficult to assess certain elements, such as productivity gains, some qualitative aspects (improving confidence and motivation, human resource function image, increase opportunities for communication, employee retention) that can have a direct positive impact on organization's activity or some quantitative aspects, such as low input.

Human resource management issues are numerous. In addition to the visible aspects, such as process optimization, data access, empowering stakeholders, reorienting human resource professionals to function with real added value information, the information system must allow to human resources function to be more effective and persuasive as "business partner" and to provide the right place assigned within the organization. Wacheux and Blanchot (2002) warn that getting the new value created by human resource management through NTIC is not implied. Essential for the human resources function is "to question the overall coherence of human resource policies by introducing new IT instruments" in an environment in a continuous change.

## 5. Conclusions

Fast economic development in most industrialized countries also led to an increase in costs of employment. Under conditions of more restrictive competition, the personnel managers have been more constrained than ever to strike a balance between the increase in costs and increases in productivity. High complexity of labor law has also contributed for the managers to focus attention on their human resources function, which needs to prove its economic and social efficiency. The major advantage of the design, development and implementation of a human resources information system is time saving in the development of transactional activities, thus allowing staff to spend more time on traditional and transformational activities.

If the expansion of informatics in a particular field of management has difficulties, this is due to the efforts of extension of the formal part of the information system. This extension requires several reflections



on the organization and, above all, a clarification and access to information and rules of operation. Or, this clarification and access to information never go by itself and is the restrictive element of development (Pichault,1990).

Information system contribution to the creation of value is achieved by new programs designed to achieve social balance sheet, management and forecast management of staff and skills and deeper analysis of the data and information in the industry, which are much closer to the results that matter in the decision-making process. Its potential to participate in the creation of value depends on the quality of the strategic procedure and the support to offer to some management tools like Balanced Scorecard.

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**Section V**

**Finance and Accounting**

## Opportunities for Improvement and Implementation of Management Accounting in Public Cultural Institutions

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### Abstract

*The role of management accounting in a public cultural institution is not itself to know the cost of cultural services but especially to help the intention to act on it. Under a production environment as a public cultural institution, where the services are heterogeneous and delivery processes are complex, it is very difficult to determine the cost of each cultural service provided. Therefore it becomes essential to know not the cost of the service but more important its cost of supply. Extent that a public cultural institution achieves its objectives are reflected through a several financial indicators of which is determined largely based on data from management accounting.*

**Key words:** management accounting, cost accounting, cost calculation methods, public cultural institutions.

**J.E.L. classification:** M 41, M10

### 1. Introduction and the reason for research topic

The issue of financing culture is vast, and while controversial, with pros and cons sufficient to state support of culture in general, and the proportion of funds allocated to various cultural fields, depending on the strategies adopted by each country.

The role of culture in the public debate on the future of humanity is sustained by political arguments. This requires an understanding of culture as a factor of social development and not as a consumer finance public sector. In this sense, culture is a tool for achieving other social and economic (economic and educational benefits, social cohesion) and must be understood as a value with transectorial dynamics.

More and more research points out that public institution alike private organizations should also be market-driven and consumer-oriented. In this context, public institutions must adopt strategies from the business world to better understand profitability in a competitive market and how to better serve all the parties implied. Culture consumption is growing and growing and public institutions need, more than ever, to turn to the expectations of their customers. These institutions require great financial resources to operate. Attracting, allocation of resources is not sufficient, is necessary to pursue the opportunity, necessity and effectiveness of their use.(Albu *et al*, 2003, p.53).

This research started from the premise that the implementation of management accounting in public cultural institutions have become a practical and indispensable activity of these institutions as it not only allows a better understanding of the costs but it also enables forecasts respectively provide the means and tools to further execution decisions, to to achievement of projections established and organizational performances expected. (Cristea, 2003, p.20)

### 2. Research context

Cultural institutions have increasingly greater need to evaluate and communicate to all parties involved the value of the cultural product or service. Faced with reduced public funding institutions have become more aware of the cost issue. Costing and financing of these costs is the main

objective of public cultural institutions that play a fundamental role in society and the economy. (Albu *et al*, 2003, p.132).

It is necessary to emphasize the overwhelming importance of management accounting, which is the one that should help management of cultural institutions in making decisions and solving internal problems that occur during the "life" of it.

The role of management accounting in a public cultural institution is not itself to know the cost of cultural services but especially to help the intention to act on it. Under a production environment as a public cultural institution, where the services are heterogeneous and delivery processes are complex, it is very difficult to determine the cost of each cultural service provided. Therefore it becomes essential to know not the cost of the service but more important its cost of supply. Extent that a public cultural institution achieves its objectives are reflected through a several financial indicators of which is determined largely based on data from management accounting.

Although the application of management accounting in public institutions is not regulated in comparison as it is for economic agents, nothing prevents leaders of public institutions to organize their management accounting on the assumption that management accounting is suitable in respect to planning, control and evaluation of programs and services of the public institutions. Its purpose is to provide information to meet the specific needs of different hierarchical levels of management and decision making in their field, and to ensure appropriate and responsible use of resources. (Hilton, 2003, p.7).

Researcher's interest in practice is essential because as a user of financial accounting information processing, management of these institutions should provide the best solution to the needs of decision-making, to answer specific questions regarding the organization filing financial sector - accounting.

### **3. Research objectives**

Driven by the desire to create more value in a field that represents a high interest but little researched in Romania - the management accounting in public cultural institutions, with desire to provide managers, researchers, students, students, professional accountants useful information, this scientific approach aims to achieve the following operational objectives:

- Knowledge of need for management accounting and cost calculation in public cultural institutions in Romania;
- Knowledge of opportunity for organize of management accounting and cost calculation in public cultural institutions in Romania;
- Knowledge of organizational benefits derived for a good management accounting and cost calculation in public cultural institutions in Romania;
- What are the forms of implementation of management accounting, management accounting methods, how to record income and expenses. (Alecui, 2009, p.83).

### **4. Research hypotheses**

The research in this paper was an empirical study based on the investigation conducted using a questionnaire addressed management of cultural institutions in Prahova, Buzau and Dambovita, Arges and Bucharest.

Questionnaire includes 24 questions with predetermined response options and was prepared taking into account the requirements of form and content, mode of expression, question formulation rules imposed so that questions are clear and easily understood by all respondents surveyed, and so the data collected to be valid and reliable answers.

To meet the objectives of the paper, I propose the following research hypotheses:

- I1.** Public cultural institutions in Romania deemed necessary and appropriate organization of management accounting and cost calculation;
- I2.** Public cultural institutions in Romania know the benefits of organization management accounting and cost calculation;
- I3.** There is a preference for abc method as a method of management accounting;
- I4.** There is a significant association between class institution in terms of type of work performed

on the one hand, and types of management accounting methods that could be applied, how to record income and expenditures and why would implement methods costing, on the other hand;

**I5.** There is a significant association between class institution in terms of the financing, on the one hand, and the importance of cost information provided in managerial decision making, types of management accounting methods that could be applied and how to record income and expenses on the other hand

## 5. Research results

To verify the first hypothesis, I proceeded to analyze the replies of the institutions that were included in the sample studied, answers to questions regarding the necessity and the opportunity of organizing the management accounting and the cost calculation. 68 institutions from 70 (97,1%) declared, that organizing the management accounting and the cost calculation is a necessary and appropriate process, though the opinions regarding the main reason for implementing cost calculation methods, were quite divided. Thus, 36,8% believe that, this is necessary for obtaining more accurate and clearer information on production costs; 29,4% believe that the main reason is more accurate allocation of indirect costs, while 29,4% state that the reason is improving control and cost management. Reducing costs and developing strategies of price fixing, were cited by 10,35% of the respondents, as reasons for implementing methods of cost calculation. Although the organization of management accounting is considered a very important process, there were only attempts, made by 5,9% of those interviewed, of implementing it.

These responses lead to the acceptance of the hypothesis that, the public cultural institutions from Romania, consider as necessary and opportune the organization of management accounting and cost calculation.

The verification of the second hypothesis. The public cultural institutions from Romania know the benefits of organizing the management accounting and cost calculation.

Over 90% of the institutions caught in the sample, believe that the information provided by costs, are of great importance in making management decisions. Only 7,4% of these companies give a medium importance, thus confirming the hypothesis that the cultural institutions from our country know the advantages of the organization of management accounting and cost calculation.

More than half of the respondents (52,9%) believe that in terms of management, the implementation of management accounting would improve the quality of the decision by control. 20,6% of them believe that this implementation would improve the quality of the decision by planning and 16,2% by reducing costs. Less than eight percent (7,4%), are those who think that this process of implementation would improve the quality of the decision by increasing service quality. Each respondent perceives to an extent, the usefulness of the information obtained, by applying the calculation methods to determine the production costs of the services and products. 45,6% of the surveyed, consider that this information is useful in a very large measure; 26,5% in a large measure; 19,1% in an average measure and 8,8% believe in their utility in a small measure.

The most common use of management accounting regarding cost control, is considered to be, by 60,3% of the respondents, the establishment of income and expenditures budget. 26,5%, believe that the most important application of management accounting could be for maintaining a balanced budget, while 13,2% use it as an aid to perform other activities. According to the respondents, the ranking of the most important results obtained by implementing the management accounting is: a better substantiation of necessary funds for obtaining them from the funding bodies (36,8%), cost reduction (32,4%), obtaining more accurate information, necessary for making strategic decisions (16,2%) and increasing customer satisfaction (14,7%).

The verification of the third hypothesis. There is a preference for the ABC method as part of the management accounting. Answering the question regarding the types of methods used by management accounting, 64,7% of the institutions included in the study, consider that the ABC method could be used as a management accounting method. There are also other opinions. Thus, 14,7% think that the global costing method could be applied, 10,3% believe in the usage of the commands method, 5,9% in the standard cost method and 4,4% in the method of direct costs.

The high percentage of those that have chosen the ABC method, confirm the hypothesis that the public cultural institutions prefer this method.

The verification of the hypothesis 4. There is a significant association between the category of institutions depending on the type of activity performed, on the one hand, and on the other hand, the methods of the management accounting that could be applied, the recording mode of incomes and expenditures and the reason why costing methods would be implemented.

The results obtained from the chi-square test, show us a significant statistical correlation ( $\chi^2=66,114$ ,  $df=16$ ,  $p=0,001$ ) between the category of institutions depending on the type of activity performed and the methods of the management accounting that could be applied. The ABC method is preferred by museums (80%), theaters and operas (60%), philharmonics (60%), cultural houses and centers (53,8%), whereas the libraries prefer the standard cost method (80%). Also, the result of the chi-square test ( $\chi^2=18,182$ ,  $df=8$ ,  $p=0,020$ ) indicates the correlation, that exists between the category of institutions depending on the type of activity performed and the recording mode of incomes and expenditures. So, in museum and cultural houses is preferred, to a greater extent, the recording mode of incomes and expenditures on cost centers, while theaters (66,7%), libraries (100%), and a good number of philharmonics (40%) prefer the recording mode of incomes and expenditures on calculation objects.

It is also statistically significant, the association between the categories of institutions depending on the type of activity performed and the main reason why the costing method would be implemented. Institutions like museums and libraries have as a main reason, for implementing the costing method, the management control and improvement, while for the ones like theaters, philharmonics and operas, the reason is, obtaining accurate and clear information regarding production costs.

All the information presented above confirm the hypothesis that, there is a significant association between the categories of institutions depending on the type of activity performed, on the one hand, and the methods of the management accounting that could be applied, the recording mode of incomes and expenditures and the reason why the costing method would be implemented, on the other hand.

The verification of the hypothesis 5. There is a significant association between the categories of institutions depending on the type of funding, on the one hand, and on the other hand, the importance of the information provided by costs in managerial decision making, the types of management accounting methods that could be applied and the recording mode of incomes and expenditures.

The institutions partially financed from the budget consider more than the ones fully funded, that the information provided by costs in managerial decision making, are of great and very great importance. A fairly large number of institutions fully funded from the budget (40%) give a medium importance to these information. So, the results of the chi-square test ( $\chi^2=8,454$ ,  $df=2$ ,  $p=0,015$ ), also confirms that there is a differentiation of the importance granted to this kind of information by cultural institutions, depending on the method of financing.

As in the case of the relation between the categories of institutions depending on the type of activity performed and the methods of the management accounting that could be applied, the relation between the category of institutions depending on the type of funding and the methods of management accounting, is statistically significant ( $\chi^2=53,654$ ,  $df=4$ ,  $p=0,001$ ). So, while the fully funded institutions (80%) consider that the standard cost method could be applied, the ones partially financed (63,3%) incline towards the ABC method.

We can also observe a relation of moderate intensity, statistically significant, between the category of institutions depending on the type of funding and the recording mode of incomes and expenditures ( $\chi^2=7,710$ ,  $df=2$ ,  $p=0,009$ ). While the institution fully funded, agree with the recording mode of incomes and expenditures on calculation objects, the ones partially financed (54%) agree with the registration on cost centers.

Through this information, we can say that it exists a significant association between the category of institutions depending on the type of funding, on the one hand, and the importance of the information provided by costs in managerial decision making, the types of management accounting methods that could be applied and the recording mode of incomes and expenditures, on the other hand.

## 6. Conclusions

The test result helped us to conclude the following:

- Only a very low number of public cultural institutions have organized the management accounting, at this moment;
- The overwhelming majority of public cultural institutions believe that the organization of management accounting and of cost calculation is necessary;
- Until now there have been only minor concerns for the implementation of management accounting and cost calculation;
- The opportunity of organizing the management accounting and cost calculation, is an opinion unanimously accepted by all the respondents;
- For implementing the management accounting, the majority of institutions believe that is necessary the use of analytical accounts for the accounts of incomes and expenditures per cost bearer;
- We can observe a preference of the institutions for the usage of special implementation software for budgetary accounting in management accounting
- The information provided by costs in managerial decision making, are considered of great and very great importance by almost all the respondents;
- 64,7% of the institutions included in the study, consider that the ABC method could be used as a method of management accounting;
- The respondents' opinion is unanimous, regarding the usefulness of the information obtained by applying the calculation methods for detailed analysis of expenditures. The information is useful and very useful;
- The quarterly transfer of information from the financial accounting to the management accounting is preferred by 70,6% of the institutions included in the study;
- Institutions like, museums and libraries use the management control and improvement, as a main reason for implementing cost calculation methods, whereas, institutions like theaters, philharmonics and operas use as a main reason, the obtaining of precise and clear information regarding the production costs;
- The ABC method is preferred by institutions like museums (80%), theaters and operas (60%), philharmonics (60%), cultural houses and centers (53,8%), while libraries prefer the standard cost method (80%);
- The majority of institutions included in the study, consider as a main usage of management accounting, the substantiating of incomes and expenditures budget. Only in the case of libraries, the majority (60%), considered that the main usage, would be maintaining a balanced budget, but the rest of 40%, mentioned the substantiating of incomes and expenditures budget;
- While the institutions fully funded from the budget (80%) consider that the standard cost method could be applied as a management accounting method, the institutions partially financed from the budget (68,3%) believe that the ABC method could be used;
- Referring to the type of method that could be applied, we observe that small institutions, with a reduced number of employees, are inclined to use the global costing method, while, the institutions with a large number of employees, prefer the ABC method;
- As the institutions fall in a category of higher own revenues, we notice, also, a preference for the ABC method.

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# Private Equity Market in Romania. Why Is its Infancy so Long?

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## Abstract

*The aim of the paper is to analyze the evolution of the Private equity market in Romania in the aftermath of the latest global financial crisis. Using data provided by European Private Equity & Venture Capital Association (EVCA), we found that the development of the Romanian private equity market has been affected by the low size and liquidity of the Romanian stock market, the high level of taxation, and the consequences of the latest global financial crisis. We consider that government support is needed in order to create a functional private equity in Romania. Our findings are useful for policy makers, academics, and practitioners.*

**Key words:** private equity, venture capital, Romania, emerging markets, public policy.

**J.E.L. classification:** G24, G30.

## 1. Introduction

In the developed economies, private equity (PE) is considered a vital financing source for high-growth and innovative SMEs. The importance of private equity is well recognized in the extant literature. Several papers have highlighted that PE-backed firms are more efficient innovators (Hellman and Puri, 2000; Kortum and Lerner, 2000; Popov and Roosenboom, 2009; Lerner *et al*, 2013), create more jobs than their peer (Belke *et al*, 2003; Fehn and Fuchs, 2003; Boucly *et al*, 2009; Davis *et al*, 2009; Bernstein *et al*, 2010), and have higher profitability (Kaplan, 1989; Guo *et al*, 2011; Meles *et al*, 2014).

In the last decades private equity has been receiving increasing attention from policy makers and the academic community and there is a growing interest in understanding which factors determine the level of private equity investments in a country or in a region.

The paper aims to analyse the evolution of the private equity market in Romania, to identify the main factors that hindered its evolution, and to propose several measures for future development. The paper is organized as follows. Section 2 provides a brief overview of private equity investments in Central and Eastern Europe (CEE). The third section presents the evolution of private equity market in Romania and highlights the main factors that hindered its evolution. Concluding remarks and policy recommendations follow in the last section.

## 2. Private equity investments in Central and Eastern Europe

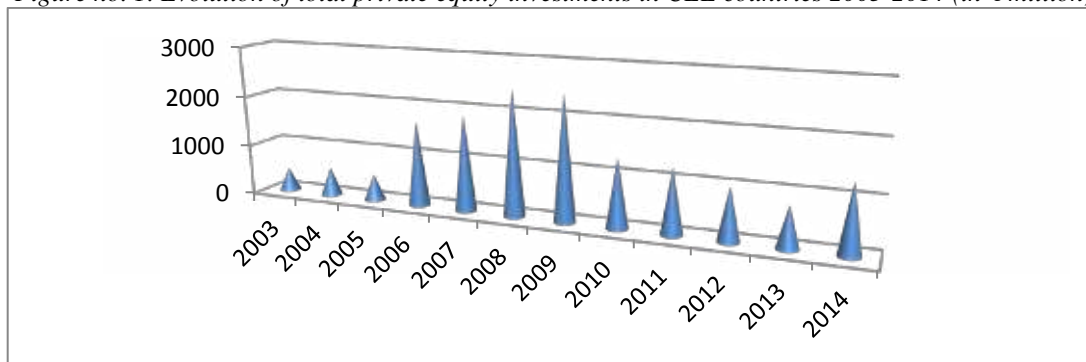
The private equity market in the Central and East Europe has been very dynamic until the onset of the latest financial crisis, in compliance with the economic evolution of the countries from the region (Onofrei and Anton, 2010). Figure 1 presents the evolution of annual PE investments in the CEE region over the period between 2003 and 2014. PE investments in the CEE region increased steadily from 2003 to 2008. Over this period the level of PE investments grew by 5 times. After the onset of global financial crisis, the PE investments followed a declining trend until 2014, when we noticed a strong rebound.

The PE activity can also be measured as the value of PE investments related to the GDP. In 2002 the ratio of PE investment to GDP in EU countries was 0.27% and rose to 0.40% in 2008. PE investments have suffered badly since the onset of the financial crisis and their share in GDP decreased to 0.27% in 2014. In CEE PE investments represented 0.05% of the GDP in 2002 and in 2008 this proportion rose to 0.21%. After a sharp decline during the financial crisis, CEE private



equity investments as a percentage of region’s GDP rebounded significantly to 0.104% in 2014. However, the CEE share is still less than 40% of the Europe-wide average in 2014 (European Private Equity & Venture Capital Association, 2015).

Figure no. 1. Evolution of total private equity investments in CEE countries 2003-2014 (in € million)



Source: (own representation after European Private Equity & Venture Capital Association, 2015, 11)

Table 1 shows that PE investments declined severely after the onset of the latest financial crisis in all CEE countries, except Poland, where the ascending trend continued until 2011. More than half of the PE investments concentrated in five countries from the region: Poland, Czech Republic, Hungary, Romania, and Bulgaria. The highest concentration was recorded in 2009, when these countries registered 93% of the total investments in the region and 73% of the total number of PE-backed companies.

Table no. 1. PE annual investments in selected countries from Central and Eastern Europe, 2007 – 2014 (in € million)

Country	2007	2008	2009	2010	2011	2012	2013	2014
Czech Republic	181.07	422.98	1,357.98	228.84	143.93	105.87	134.44	299.45
Hungary	222.72	464.03	213.64	65.05	194.84	102.95	56.26	169.93
Poland	434.19	635.72	274.57	652.69	678.44	473.01	380.03	250.92
Romania	212.45	293.96	220.87	119.14	65.92	27.61	70.35	77.97
Bulgaria	178.99	91.63	185.17	82.24	7.23	84.17	11.10	2.33
Total CEE	1887	2438	2432	1336	1247	1004	789	1311

Source: (own representation after data provided by European Private Equity & Venture Capital Association, 2016, <http://www.investeurope.eu/research/activity-data/annual-activity-statistics/>)

Poland is the regional leader in attracting PE investments, followed by Czech Republic. The successful story of the Polish private equity market is explained by the existence of a developed financial market and strong economic activity. Having the largest number of IPOs among all European exchanges over the period between 2009 and 2012 (European Private Equity & Venture Capital Association, 2013), Warsaw Stock Exchange offers good exit opportunities to the PE investors.

### 3. The evolution of the private equity market in Romania

In general, the Romanian private equity market followed the same trend as most of the countries from CEE region, but there are significant differences regarding the value and its structure. Table 2 presents the evolution of annual PE investments in Romania over the period between 2007 and 2014 by stage of financing. In 2008, Romania recorded the highest level of PE investments in his history (€293 million). The deepening of the financial crisis has severely affected the private equity investments in the following years, their value dropping at €27.6 million in 2012. PE investments rebounded in 2013 and 2014, but the value is still low compared to the pre-crisis value.

Table no. 2. PE investments in Romania over the period 2007 – 2014 by stage of financing (in € million)

Stage	2007	2008	2009	2010	2011	2012	2013	2014	Total 2007 - 2014	% of total PE investments
Seed	0	0	0	0	0	0	0	0	0	0
Start-up	32.45	5.43	4.17	1.90	0	0	0	1.82	45.78	4.21
Later stage venture	1.32	36.56	0	3.18	4.00	3.05	2.98	3.47	54.59	5.02
<b>Total venture</b>	<b>33.78</b>	<b>41.99</b>	<b>4.17</b>	<b>5.08</b>	<b>4.00</b>	<b>3.05</b>	<b>2.98</b>	<b>5.30</b>	<b>100.37</b>	<b>9.22</b>
Growth	52.36	49.65	89.93	52.04	31.76	7.85	10.07	22.42	316.11	29.05
Rescue/ Turnaround	0	0	0	0	0	0	0	1.06	1.06	0.10
Replacement capital	14.50	5.00	22.04	12.00	18.50	0	9.45	0	81.49	7.49
Buyout	111.80	197.31	104.72	50.00	11.65	16.70	47.83	49.18	589.20	54.14
<b>Total Investment</b>	<b>212.44</b>	<b>293.96</b>	<b>220.87</b>	<b>119.13</b>	<b>65.91</b>	<b>27.60</b>	<b>70.34</b>	<b>77.97</b>	<b>1088.25</b>	<b>100</b>

Source: (own representation after data provided by European Private Equity & Venture Capital Association, 2016, <http://www.investeurope.eu/research/activity-data/annual-activity-statistics/>)

In Romania, most of PE investments focused on buyout (54% of total PE investments) and growth stage (29%). On average, venture capital represents only 9.22% of total private equity investments. Romania is the only country from CEE region which didn't attract any seed financing over the period between 2007 and 2014. In Romania, venture capital investments represented on average 0.004% of GDP over the period between 2010 and 2014. Analyzing the private equity market we found that there are no corporate venture funds established by private or public Romanian corporations.

Table 3 provides an overview of the total number of Romanian companies receiving private equity financing over the period between 2007 and 2014. The largest number of PE-backed has been registered in 2008 (29), followed by a declining trend in the next four years. Most of the PE-backed companies were in the growth stage. Also, over the period between 2010 and 2013, when financial constraints severely affected SMEs' activity, only one start-up and four later stage ventures attracted investments.

Table no. 3. PE-backed companies in Romania by stage of financing, 2007-2014

Stage focus	2007	2008	2009	2010	2011	2012	2013	2014
Seed	0	0	0	0	0	0	0	0
Start-up	1	5	4	1	0	0	0	2
Later stage venture	2	2	0	1	1	1	1	4
<b>Total venture</b>	<b>3</b>	<b>7</b>	<b>4</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>5</b>
Growth	4	10	12	12	10	8	8	8
Rescue/Turnaround	0	0	0	0	0	0	0	1
Replacement capital	2	2	2	1	1	0	3	0
Buyout	10	11	5	2	2	1	4	6
<b>Total Investment</b>	<b>17</b>	<b>29</b>	<b>23</b>	<b>17</b>	<b>14</b>	<b>10</b>	<b>16</b>	<b>19</b>

Source: (own representation after data provided by European Private Equity & Venture Capital Association, 2016, <http://www.investeurope.eu/research/activity-data/annual-activity-statistics/>)

Table 4 presents the evolution of PE investments by sector over the period between 2007 and 2014. The top five sectors that attracted the largest PE investments were life sciences (19.45% of

total investments over the period 2007-2014), consumer services (10.74%), consumer goods & retail (9.50%), energy & environment (8.17%), and communications (7.90%). In CEE region, the most targeted sectors for PE investments were communications, computer and consumer electronics, consumer goods and retail (European Private Equity & Venture Capital Association, 2015).

Table no. 4. Annual investments in Romania by sector, 2007-2014 (in € million)

Sector focus	2007	2008	2009	2010	2011	2012	2013	2014	% of T I
Agriculture	0	20.00	0	9.32	0	0	2.50	0	2.92
Business & industrial products	17.50	5.46	0	0	0	0	0	0	2.10
Business & industrial services	17.47	15.98	2.70	3.01	5.15	0.25	0.49	0.41	4.17
Chemicals & materials	0	46.42	6.25	0.69	2.54	0.88	12.51	0	6.36
Communications	45.00	1.07	4.40	13.90	0	3.95	12.01	5.66	7.90
Computer & consumer electronics	1.12	0	25.72	0	4.00	0	4.65	14.63	4.60
Construction	3.60	38.73	2.09	3.14	7.60	1.92	0.82	0.68	5.38
Consumer goods & retail	3.70	15.81	66.00	6.27	10.00	0.31	0.22	1.10	9.50
Consumer services	46.20	10.01	22.00	0	18.50	0	2.05	18.21	10.74
Energy & environment	0	2.40	17.15	16.97	5.93	20.00	14.83	11.70	8.17
Financial services	18.00	18.97	18.52	12.63	9.18	0.27	0	1.06	7.22
Life sciences	23.96	86.00	54.74	40.00	0	0	0	7.00	19.45
Real estate	35.87	33.08	1.25	3.18	0	0	0	0	6.74
Transportation	0	0	0	10.00	3.00	0	20.25	17.50	4.66
Unclassified	0	0	0	0	0	0	0	0	0
Total investment	212.44	293.96	220.87	119.13	65.91	27.60	70.34	77.97	

Source: (own representation after data provided by European Private Equity & Venture Capital Association, 2016, <http://www.investeuropa.eu/research/activity-data/annual-activity-statistics/>)

The global financial crisis changed the attractiveness of several sectors for private equity investors. After the onset of financial crisis, energy & environment and transportation attracted more PE investments in Romania than in the previous period. On the other hand, life sciences, real estate, and consumer goods & retail were less attractive for PE investments over the period 2011-2014 relative to the pre-crisis period.

Private equity activities are influenced by institutional environment. Groh et al (2010) proposed a Venture Capital and Private Equity Country Attractiveness Index in order to measure the attractiveness of countries for investors in the venture capital (VC) and private equity (PE) asset classes. In this index the author included six key drivers of VC and PE attractiveness: (1) economic activity (GDP, inflation, unemployment rate); (2) depth of the capital market (size and liquidity of the stock market, total trading volume, IPOs and public issuing activity); (3) taxation; (4) investor protection and corporate governance (quality of corporate governance, security of property rights, quality of legal enforcement); (5) human and social environment; (6) entrepreneurial culture and deal opportunities. Table 5 presents the evolution of VC/PE attractiveness index for Romania over the period 2009-2015.

Table no. 5. Evolution of VC/PE attractiveness index for Romania over the period 2009-2015

	2009	2011	2013	2015
VCPE Index / Rank	48	59	65	46
1. Economic Activity	19	76	48	36
2. Depth of Capital Market	53	62	66	57
3. Taxation	111	113	87	48

4. Investor Protection and Corporate Governance	55	52	68	49
5. Human and Social Environment	56	66	81	70
6. Entrepreneurial Opportunities	48	47	44	41

Source: (The Venture Capital & Private Equity Country Attractiveness Index, 2016, <http://blog.iese.edu/vcpeindex/romania/>)

The Romania’s position in VC/PE attractiveness index has improved significantly in the last years, but it still lags behind other countries from CEE region. Among the factors that reduce the Romania’s attractiveness to receive institutional VC and PE allocations over the period 2009-2015, we found the depth of capital market, the level of taxation, and human and social environment (labor regulations, bribing and corruption). If some of the above mentioned factors have improved in the last year, the depth of capital markets represents a serious issue for Romania. In our opinion, the low size and liquidity of the Romanian stock market, the low number of IPOs, the high ratio of bank non-performing loans to total gross loans and the low value of M&A market severely affected the development of a significant VC/PE market. In addition, numerous changes in labor regulations and high level of bribing and corruption influenced negatively the value of PE investments.

Romania hasn’t had a strategy to support the development of private equity market. Also, there is no government supported programme for venture capital in Romania. Anton and Onofrei (2016) highlighted that most of the previous public programs to support SMEs’ financing focused on providing grants to start-ups and SMEs and on loan guarantees. Numerous developed (Australia, USA, Canada, United Kingdom) and developing economies (Latvia, Hungary, India, and others) have implemented in the last two decades public programs to support private equity/venture capital markets and the results are mixed (Cumming and MacIntosh, 2006; Cumming and Li, 2013). Karsai (2015) provides some theoretical arguments for and against the government’s participation in the venture capital market. EVCA (2014) showed that over the period between 2009 and 2013 European governmental bodies provided almost 40% of equity raised by venture capital funds focused on regional investments. Avots *et al* (2013) reported that Latvia has established five public venture capital programs over the period between 2005 and 2014. Due to government supported program, the value of venture capital investments in India increased from \$600 million in 2006 to \$1.4 billion in 2014 (Ernst & Young, 2014).

#### 4. Conclusions and policy recommendations

The existence of a sound private equity market is important for the Romanian economy and companies. The extant literature confirms that, in general, private equity investments increase employment, improve operational performance and spur innovation.

Even if the first private equity transactions took place almost twenty years ago, the Romanian private equity market is still in its infancy. The underdeveloped stock market, high level of taxation, and the lack of a strategy to support venture capital market have negatively affected the evolution of private equity market in Romania in the last two decades. One potential solution for the development of a vibrant private equity market in Romania is the governmental support.

As the latest global financial crisis severely affected the private equity market in Romania, we consider that public support is important for market recovery and development. The Romanian government can support the development of private equity market in several ways. Firstly, government could participate direct in the venture capital market by creating venture capital funds or co-investment funds. The management of these venture capital funds could be conducted by independent fund management companies or state-owned management companies. Secondly, government could provide tax and regulatory incentives in order to boost venture capital investments. Thirdly, equity raised by venture capital funds could be increased by allowing pensions funds to invest (more) in this new asset class. Fourthly, public support for business angel networks represents other examples of supply side measures.

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## The Study On International Cooperation Made By The Romanian Professional Accountancy Bodies

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### Abstract

*Professional bodies with responsibility in regulating the accounting profession in Romania, with a vast experience in the field, such as Body of Expert and Licensed Accountants from Romania, the Chamber of Financial Auditors from Romania, Chamber of Financial Consultants from Romania, National Association of Certified Evaluators from Romania, are intensively cooperating with international bodies in order to develop accounting profession and support the accountants in providing high quality services to the public.*

*Cooperation of the professional bodies involved in the regulation of the accounting profession has one fundamental objective: development of a strong accounting profession, able to serve the public interest, spread information and recommendations among its members, as well as providing services of the highest professional level.*

**Key words:** accounting profession, cooperation, international standards, professional bodies, quality.

**J.E.L. classification:** M41, M48.

### 1. Introduction

Accounting profession is one of the few professions recognized at European level, being governed by Directive 2005/36 / EC on the recognition of professional qualifications. This is "one of the few professions that assumes responsibility to the public interest, meaning it does not only look after the needs of shareholders, but also those of employees, suppliers, customers, banks, investors etc." (Balteş and Minculete, 2014, pp.12-14).

The task of establishing and developing a professional body in the accounting domain can be a demanding and difficult experience at the same time. Collaboration and learning from other precursors, with extensive experience in this field, can be a valuable support in achieving goals and their expertise and experience in managing professional bodies in terms of collaboration with local authorities, regulatory institutions and providers of education represent valuable resources.

In order to conduct international business and collaborate with international organizations, the professional bodies in Romania need to follow several important steps in this respect:

- to be a non-commercial and non-governmental body;
- to be accepted and recognized by all its members;
- to have good reputation among public authorities and the general public;

- to have the ability to develop or influence professional standards (ethics, discipline, professional practice, quality control);
- its members must be authorized to carry out at the highest possible level the traditional activities;
- have the managerial capacity and resources to fulfil its mission and objectives.

The best international practices have been adopted by the professional bodies for the development of accounting profession, providing for their members the most appropriate standards of work, behaviour and quality. All this was possible through the cooperation with international organizations in the field of finance and accountancy.

Professional bodies are important „for the determination of a more balanced framework of evaluation of options, procedures and results, from the perspective of both those proposing certain solutions and the ones targeted by the decisions. The public and the business entities should be protected from an eventual malpractice on behalf of accountants. This protection is ensured when the professional body sets some effective measures regarding the education of professional accountants, efficient measures of professional ethics” (Grigoroi, 2014, pp.8-11).

„The professional accountants, through the nature of their activity, have been and are pioneers of the process of integrating the Romanian business environment into a European and an international one. The professional accountants are permanently confronting with the high standards of the exigent international business environment, having to improve continuously the professional training level, contributing in this way to the increase of the business environment efficiency and, of course, the obstacles which still exist will have to be surpassed” (Avram and Avram, 2009, p.15).

## **2. International Relations of the Body of Expert and Licensed Accountants from Romania**

In the most important European organizations of continental importance, in particular the Council of Europe and European Union, labor legal standards are elaborated, applicable at international level (Avram and Nastasie, 2013, p.150). Body of Expert and Licensed Accountants from Romania (CECCAR) is the professional body managing the accounting profession in Romania, being nationally represented through its 42 local subsidiaries, one in each county. Its role is „to sustain and promote high quality professional practices, proving a great concern for the competence, aptitudes and ethics of those active in the field of accountancy” (Cucoşel, 2014, p. 20).

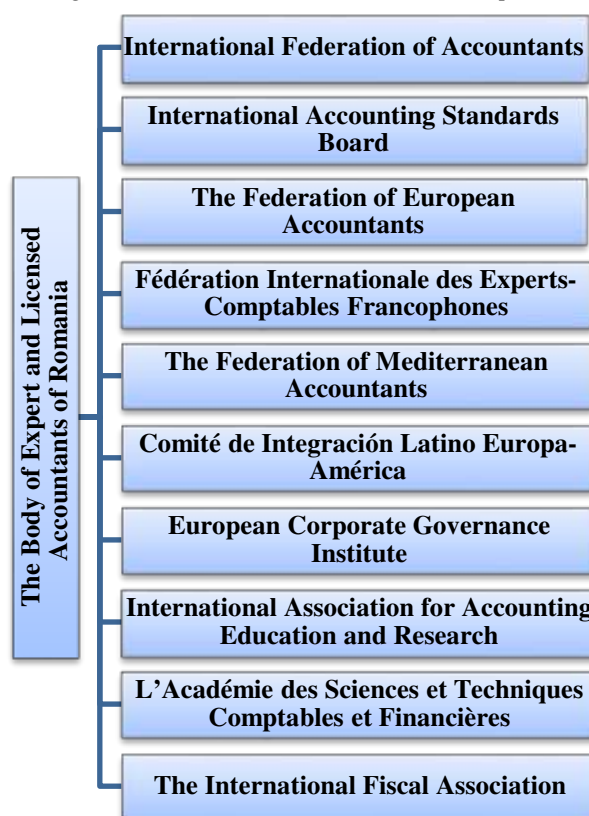
Body of Expert and Licensed Accountants from Romania has organized a number of national and international events which were meant to support the professional accountants and permit a better acknowledgement of the accounting information, so to gain a better position in this continuous competition imposed by globalization. All these events have also proven that services provided by accountants are services of public interest, which is enough reason for them to try to improve professionally by acting with a „positive aggressiveness” in their profession.

Body of Expert and Licensed Accountants from Romania represents an important voice within the international professional bodies, being an active member in these representative bodies with attributions in the accounting field. It has numerous agreement of cooperation ( site CECCAR) at international level as can be seen in Figure no.1:

- *IFAC – International Federation of Accountants* – is the global organization of accounting profession. It collaborates with all the 164 members and associated members from 125 countries to protect the public interest by encouraging global accountants to apply high-quality practices. The bodies which are members and associates of IFAC are mainly professional accountancy bodies, representing 2.5 million accountants employed in public practice or in industry, commerce, education and public institutions etc. IFAC is the global organization for the accountancy profession covering all sectors and specializations of this profession: business accounting, tax consulting, audit, information technology, insolvency etc.
- *IASB – International Accounting Standards Board* - is the independent body focused on the normalization of standards within the IFRS Foundation. Its members are responsible for the development and publication of IFRSs, including the IFRS for SMEs and the approval of the IFRS Interpretations elaborated by IFRS Interpretations Committee (formerly IFRIC).

- *FEE – The Federation of European Accountants* – is the organization representative for the accountancy profession in Europe. 45 professional institutes of accountants from 33 countries are FEE members. FEE member bodies are present in all 27 EU Member States and in three EFTA member countries. FEE member bodies represent more than 500,000 accountants in Europe.
- *FIDEF – Fédération Internationale des Experts - Comptables Francophones* – was founded in 1981 and aims at bringing together professional accountancy organizations in francophone countries to which they provide a structure for exchange and cooperation to protect and promote the French accounting profession and to ensure competence internationally. The organization brings together 30 active members and 13 associate members, representing 55.000 professionals in 34 countries on four continents.

Figure no.1 CECCAR – International Cooperation



Source: Own projection

- *FCM – The Federation of Mediterranean Accountants* - represents the accounting profession in the Mediterranean region. 21 professional institutes of accountants from 16 Mediterranean countries (Albania, Bulgaria, Cyprus, Egypt, France, Greece, Israel, Italy, Kosovo, Malta, Morocco, Romania, Serbia, Spain, Tunisia, and Turkey) are part from this organization, plus other two associate members, ACCA and FIDEF. FCM member bodies are present in eight EU member states and represent more than 320.000 professionals. FCM's mission is to promote cooperation between professional accounting bodies in the region, both in the private and the public sector, to exchange information and provide technical assistance in helping members achieve and maintain professional standards and certification quality.
- *CILEA – Comité de Integración Latino Europa-América* - was founded in 1997 and includes 26 professional bodies in 18 countries on two continents Latin. The CILEA mission is to facilitate communication between countries in Europe and in Latin America to reach common standards in the harmonization of professions and for the dissemination of convergent positions which represent the approaches of Latin professions to professional issues.
- *ECGI – European Corporate Governance Institute* - is a non-profit scientific international



association. It is a forum for debate and dialogue between academics, legislators and practitioners, focusing on the important issues of corporate governance and promoting best practices. Its main role is to undertake, to initiate and disseminate all the research on corporate governance.

- IAAER – International Association for Accounting Education and Research - is a global non-profit organization. Its mission is to promote excellence in accounting education and research worldwide and maximize the contribution of accounting academics in developing and maintaining high standards of quality for the accounting practice recognized globally.
- L' ACADEMIE – L'Académie des Sciences et Techniques Comptables et Financières - is a platform of services that facilitates the exchange of information on various topics and helps identifying best practices. It also provides transparent accounting and financial information. Academy gathers around 65.000 professionals in 25 countries and in different environments: accountants, financial managers, internal auditors, financial analysts, etc.
- IFA – The International Fiscal Association - is the only non-governmental and non-sector international organization concerned with tax issues. Its objectives are the study and promotion of international and comparative legislation on public finance, especially international tax law and comparative economics of taxation. IFA wants to achieve these objectives through its annual Congresses and its related scientific publications and scientific research. Although IFA activities are essentially scientific, the selected themes take into account the current fiscal developments and changes in local laws. IFA has nearly 12.000 members in 100 countries. IFA members have established subsidiaries in 62 countries.

Body of Accounting Experts and Licensed Accountants of Romania has developed outstandingly, in the service of economy, and has contributed to the organization of the accounting profession at European and international level by organizing congresses every two years, since the onset of this organism in 1923, with the participation of numerous specialists worldwide.

By organizing numerous events, Body of Accounting Experts and Licensed Accountants of Romania proved concerned about the Romanian economy, the quality of services provided by professional accountants and became, over time, a cohesive professional body which assumes full responsibility towards the public to promote the policy of accounting reform in Romania as part of the government's economic reform program and complies with international standards recommended by the European Commission under European Directives.

### **3. The cooperation of Chamber of Financial Auditors of Romania with international and national organizations**

Chamber of Financial Auditors of Romania, in order to serve the international interests of the whole Romanian accounting profession, has accessed membership status in international bodies such as:

- a full member of the International Federation of Francophone Accounting Experts (FIDEF) – 6 May 2006;
- a full member of the International Federation of Accountants (IFAC) – 13 November 2008;
- a full member of the European Federation of Accountants (FEE) – 16 December 2010;
- institutional member of the International Association for Accounting Education and Research (IAAER) – 17 April 2010.

Also, the Chamber of Financial Auditors of Romania has signed several cooperation agreements with international organizations in developing and improving accounting profession in Romania. Among them, those who have a deeper impact are:

- Cooperation Agreement between the CAFR and ACCA, on professional training - April 11, 2008 and the Agreement of Cooperation on professional recognition - January 5, 2011;
- Cooperation Agreement between CAFR and the Association of Accountants and Auditors of the Republic of Serbia - November 6, 2008;
- Cooperation Agreement between the CAFR and the Chamber of Auditors of Azerbaijan – 5 May 2009;
- Cooperation Agreement between the CAFR and the Institute Licensed Accountants of Scotland

- (ICAS) – 26 June 2009;
- Cooperation Agreement between the CAFR and the Institute of Certified Accountants from England and Wales (ICAEW)– 27 June 2009;
  - Cooperation Agreement between the CAFR and the Institute of Certified Public Accountants in Bulgaria - June 26, 2009;
  - Cooperation Agreement with the Hungarian Chamber of Auditors (MKVK) - October 26, 2009;
  - Cooperation Agreement with the Union of Auditors of Ukraine - October 26, 2009;
  - Cooperation Agreement with the Association of Professional Accountants and Auditors of the Republic of Moldova (ACAP) - March 9, 2010;
  - Cooperation Agreement with the Lithuanian Chamber of Auditors - October 27, 2010;
  - Cooperation Agreement with the National Institute of Professional Accountants, Financial Managers and Economists in Russia (NIPA) - April 21, 2012;
  - Cooperation Agreement with the Board of Auditors of Russia (RCA) - November 6, 2013.

Chamber of Financial Auditors of Romania annually organizes numerous conferences, events and actions, where professional debates are held that bring together presidents and high-level representatives of organizations of professional accountants and auditors from: Azerbaijan (Chamber of Auditors from Azerbaijan), Georgia (Federation of Professional Accountants and Auditors from Georgia), Moldova (Association of Professional Accountants and Auditors of the Republic of Moldova), Russia (Russian Board of Auditors and the National Institute of Professional Accountants, Financial Managers and Economists from Samara), Ukraine (Union of Auditors of Ukraine, Ukrainian Chamber of Auditors ) and financial auditors who are members of the Chamber of Auditors of Romania, in order to raise the prestige of the profession of auditor.

#### **4. Cooperation of the Chamber of Financial Consultants from Romania and the National Association of Certified Evaluators from Romania**

Chamber of Financial Consultants from Romania has a smaller area of cooperation, compared to the two remarkable professional bodies in the accounting profession, the Chamber of Financial Auditors of Romania and the Body of Expert and Licensed Accountants from Romania, becoming a member of the European Tax Confederation from 26 September 2009. It collaborates with other specialized organizations in the country facilitating the opportunity for members to deepen their knowledge in the field of taxation.

Chamber of Financial Consultants from Romania organizes the annual regular Conference, where are discussed the main aspects of the accounting profession in matters of taxation. By organizing events, it aims carrying out activities aimed at developing professional skills and ethics, promoting conceptions common of its members in terms of professional practices with the regulatory and supervisory authorities, as well as the exchange of information and best practices among its members. National Association of Certified Evaluators from Romania has obtained from TEGoVA (The European Group of Valuers Associations) the recognition of the right to grant the status of Recognized European Valuer to its members who meet the necessary conditions. The system of recognition of European valuers is meant to maintain, improve and harmonize evaluation standards and the profession of evaluator in Europe. By granting the status of Recognized European Valuer- REVTM, this scheme offers individual evaluators from EU countries a well defined indicator of quality and experience, in order to assure the beneficiaries of valuation services on their professional competence.

#### **5. Conclusions**

„For Romania, a safe manner of departing from periphery is the capitalizing the potential of creativity, research and innovation through a coherent strategy in this area” (Avram and al., 2014, p.50) and full - fledged participation in specialized international professional bodies. We consider that international relations, achieved through the cooperation of Romanian professional bodies with international organizations representative in the field of accounting, are aimed at reuniting the leaders of the accounting profession (including professionals working in public accounting firms,

academic specialists in accounting, accountants in national and international businesses, professional institutes and thousands of accountants, regulators, standards' creators and other stakeholders) for the further development of a high-quality global accounting profession.

As a result of international cooperation, professional bodies provides us the accents in the development of the accounting profession internationally; regional and global approaches in terms of accountants' qualification; assisting professionals in continuous professional training; striking a balance between learning activities perceived to be relevant for the profession and activities considered relevant in terms of the objectives of any accountant in a developed economy.

In the future, our goal is to maintain existing relationships and to contribute to the formation of partnerships between universities and businesses with the support of professional bodies in which both parties will be encouraged to become 'drivers' for change and both will have valued contributions in the training process.

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## Aspects of Influence on the Accounting-Taxation Relation at the Legislative Level in Romania

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### Abstract

*The relation between accounting and taxation is a subject that has been influenced over time by the various changes in the legislation. In the last years there were various changes regarding both the accounting and taxation legislation. The accounting and taxation legislation represent the most important aspects in determining the level of interdependence between the two domains. Also, the level of interdependence at the legislative level can influence the application of the legislation. The paper aim is to analyze the accounting legislation and taxation legislation applied in Romania at the moment to establish the aspects of influence in the accounting-taxation relation.*

**Key words:** accounting, taxation, relation, legislation, influence

**J.E.L. classification:** H20, M41

### 1. Introduction

The various changes that occurred over time in the accounting and taxation legislation have influenced the relation between the two domains. If at the beginning of the years '90 they were closely connected, now they head to a slight disconnection, taking into consideration that Romanian legislation was influenced by the Anglo-Saxon system whose characteristic is the disconnection between taxation and accounting. However the disconnection process is at the beginning in Romania. The paper aims to analyze the accounting legislation and the taxation legislation in force at the moment to establish the level of interdependence between them and the aspects of influence in the accounting-taxation relation. The legislation is the most important in this relation. The way in which the legislation is applied is also important in this relation, because if the provisions of each of the two are not fulfilled, it can appear some phenomena such us tax evasion that will influence the economic circuit in a market.

For this study it will be used qualitative methods, by analyzing the social documents such as the official documents: legislation and regulation applied at the moment in Romania. It will be analyzed the taxation legislation and the accounting legislation and it will be determined the aspects of influence on the relation between the two.

### 2. Literature review

“Within the national accounting regulations, the accounting policies and procedures are based on both the accounting principles and the normative regulation system. The reference system for elaborating accounting policies accepts alternatives to register and asses in accounting, respectively various methods of assessment and calculation of the financial position, result and modification in the financial position.” (Ciucur *et al*, 2012, p.77)

Both accounting and taxation are really important in the economic circuit and for the users of the financial information. “In any society, the need for taxation is fully proved, nothing else replacing this means of funding and support of the state. This is the more so as there has been created, in recent years, a general mood related to the budgetary, macroeconomic and social implications of tax evasion proliferation, under cover of a legislation which hardly improves.”

(Constantin, 2014, p.196)

“Today, the tax and accounting dependency and the requirement for the analysis of the perspectives regarding the harmonization and disconnections are recognized as the idea of increasing active role of financial information (and) making decisions to invest or on the prospects of a company.” (Oprean *et al*, 2012, p. 23)

Even if the two domains target the incomes and profits of the economic subjects, they have different objectives. “The interest of accounting is to present an accurate image of a company’s activity for all the users of the financial information. The taxation interest is gathering the taxes, fees, contributions and other amounts due to the general consolidated budget for financing the public expenses.” (Bacanu, 2016, p. 51)

“Analyzing the regulations from the taxation domain and those from the accounting domain, it can be seen that between taxation and accounting exist a relation of connection. More specifically, the taxation regulations depend on the accounting regulations. The taxes are found by applying some rules over the accounting data.” (Bacanu, 2015, p. 658)

“Supervising the tax bases, the legality and compliance of tax statements, the fairness and accuracy of the fulfillment of obligations by taxpayers, the compliance with the provisions of tax legislation and accounting legislation, the establishment of differences in payment obligations and their related ancillaries and consequently the information provided by the taxpayer, is made by the tax inspection.” (Constantin, 2010) As we can see the tax inspection supervises the activities of tax purposes. In this paper it will be also analyzed who verifies the accounting records and by whom are established the contraventions.

Further it will be analyzed the legislation in force in this moment for both of the domains, to establish the interaction between accounting and taxation regulation.

### **3. The analysis of the taxation legislation**

Starting with 2016 in Romania entered into force the Law no. 227/2015 regarding the Fiscal Code and the Law no. 207/2015 regarding the Fiscal Procedure Code, which replaced the older legislation applied by taxation: Law no. 571/2003 regarding the Fiscal Code and Government Ordinance no. 92/2003 regarding the Fiscal Procedure Code republished.

Even if the old Fiscal Code was replaced, in the new Fiscal Code are maintained the provisions that refer to the accounting legislation. However, we will analyze further which of these provisions were changed and which are not and what is the influence of this change on the relation between accounting and taxation.

According to the Law no. 227/2015 regarding the Fiscal Code, article 19 “General Rules”, line 1 “the fiscal result is computed as the difference between the revenues and the expenses recorded according to the applicable accounting regulation, from which are deducted the non-taxable incomes and fiscal deductions and are added the non-deductible expenses”. It can be observed that this provision relates to the accounting regulation. So, the fiscal result is determined taking into consideration the revenues and expenses recorded in accounting registers. Thus, the difference between the revenues and the expenses recorded in accounting registers is named the accounting result. The fiscal result is dependent on the accounting result. Moreover, in the Methodological Norms of the Fiscal Code, point 5, for the application of the article 19, line 1, makes references exactly to the Accounting Law no. 82/1991 republished with subsequent amendments and supplements.

Also, according to the article 19, line 7 the taxpayers must draw up a tax records register in which to emphasize the taxable incomes and the expenses made for the activity of the entity and according to point 8 for the application of this article the taxpayer can draw up it “in written or electronic form respecting the provisions of the Law no. 82/1991 republished with subsequent amendments and supplements, regarding the use of information systems for automatic data processing”. The fiscal legislation makes again reference to the accounting legislation.

Another provision of the Fiscal Code that shows the interaction of taxation regulation with the accounting regulation is the article 53 regarding the taxable base of the microenterprises’ income tax. Thus, the taxable base represents the incomes from any source from which must be deducted some categories of incomes such as: “the value of commercial discounts granted after invoicing,

recorded in the account "709", according to the applicable accounting regulations” and to which must be added besides others “the value of commercial discounts received after invoicing, recorded in the account "609" according to the applicable accounting regulations”. Moreover, in section 5 of the Methodological Norms of the Fiscal Code, point 5, for the application of the article 53, it is clearly specified that the taxable base for the microenterprises’ income tax is represented by “the total of quarterly revenues recorded in the credit side of the accounts from the 7<sup>th</sup> class "Revenue accounts", according to the applicable accounting rules, from which will be deducted the income categories mentioned in art. 53 line 1 and will be added the elements mentioned in art. 53 line 2 of the Fiscal Code”. This is an obvious reference to the accounting provisions through the specification of the elements existing in the General Chart of Account. So, the computation of the microenterprises’ income tax is dependent on the values recorded in the accounts from the 7<sup>th</sup> class "Revenue accounts" existing in the trial balance of the entity.

Article 67 „General rules for assessment of net annual income from independent activities determined in real system, based on the accounting data” is another provision from the Fiscal Code that makes reference to the accounting regulation. Thus, as the title of the article says, the net annual income determined in real system is computed based on the accounting data as the difference between the gross income and the deductible expenses incurred in order to achieve the incomes, except the situations mentioned in the Fiscal Code.

As we can see the determination of the profit tax, the microenterprises’ income tax and the net annual income from independent activities is dependent on the accounting regulation. This dependence can be also identified in the old Fiscal Code.

The major change related to the interdependence of the Fiscal Code with the accounting regulation came in 2016 once the new Fiscal Code entered into force, through the provisions regarding the tax on buildings. Thus, according to the article 153 “Computing the tax due by the juridical persons” from the old Fiscal Code the “tax on buildings for the juridical persons is computed by applying a tax rate on the inventory value of the buildings, which is the entry value of the buildings recorded in accounting. If the building is revalued according to the accounting regulations, the taxable value of the building is the accounting value after revaluation, recorded as such in the accounts owner - legal entity.” It can be observed in this paragraph the dependency of the taxable value of the building on the accounting recordings. The taxation regulations were connected by the accounting regulations, because the taxable value of the building was the value registered in accounting registers.

On the other hand, according to the new Fiscal Code, besides other changes regarding the way of taxing the buildings, these provisions were changed. So, according to the article 460 “Calculation of tax/fee on buildings owned by juridical persons” the taxable value of the buildings owned by juridical persons is “the value the building had on 31<sup>st</sup> of December the year before the one for which the tax is computed: the last taxable value recorded in the tax authority records; the value resulting from an evaluation report drawn up by an authorized assessor in accordance with valuation standards of goods in force at the valuation date; the final value of construction works, for the new buildings constructed during the previous fiscal year; value of the buildings resulting from the document regarding the transfer of ownership of the buildings acquired during the prior fiscal year”. As it can be observed, in the provisions of the new Fiscal Code it has been removed the reference to the accounting records and regulation. The taxable value of the buildings is not determined anymore based on the accounting records. It is determined based on the tax authorities’ records, evaluation reports, documents regarding the transfer of ownership, or the final value of construction works for the new buildings. This is an obvious disconnection between taxation regulation and accounting regulation, a major change in the taxation regulation.

However, there is a provision in this article of the new Fiscal Code regarding the fee on buildings, which makes reference to the accounting records (article 460, line 5, letter f). Thus, the fee on buildings due by concessionaire, lessee and owner of the right of management or the right of use of the buildings owned by the state is determined based on the accounting value of the building, existent in the accounting records of the owner of the building. So, for this category of buildings and of taxpayers, there is due a fee whose calculation is dependent on the accounting records.

#### **4. The analysis of the accounting legislation**

Further it will be analyzed the accounting legislation to see the level of interdependence between this and taxation legislation.

Analyzing the Accounting Law 82/1991, there can be identified the article 23 regarding the use of information systems for automatic data processing in which it is making reference to the taxation. Thus, the entities must assure the access to the accounting data stored on technical supports for the tax authorities. Also, according to the article 42 line 4 “The establishment of contraventions and application of the fees are made by persons with attributions of fiscal inspection and financial control, as well as the staff of other directions of the Ministry of Finance, established by the Minister of Public Finance”.

We can see that in the Accounting Law are specified the authorities who verify the accounting records, establish the contraventions and apply the fees: tax authorities and persons with attributions of fiscal inspection and financial control.

These provisions emphasize the interdependence between the two domains. The accounting is the base for the computation of the majority of the taxes, thus it is important to be supervised by the tax authorities. This is another prove that the taxation is dependent on the accounting in Romania.

Another proof for establishing the interaction between accounting and taxation can be determined by analyzing the Order 1802 of 2014. So, we can identify at point 63, line 4 some provisions which prove the dependency of taxation on the accounting: “if the accounting policies for a prior period are changed, the entities must take in consideration the fiscal effects of these”. We can observe that the taxation can be influenced by the accounting changes.

#### **5. Conclusions**

In the taxation regulations can be identified various references to the accounting regulations. Thus, in the Fiscal Code a large part of the provisions make reference to the accounting regulations and to the accounting records.

The majority of the taxes are computed based on the accounting records. The fiscal result is computed based on the accounting result, the taxable base for the microenterprises’ income tax is computed based on the value of the accounts from the 7<sup>th</sup> class existent in the trial balance, the net annual income from independent activities determined in real system is determined based on the accounting data. This is a clear proof that taxation legislation is dependent on the accounting legislation. The majority of the taxes are computed based on the values existent in the trial balance of an entity or in the accounting registers.

However starting to the year 2016, there is a major change in the taxation legislation regarding the tax on buildings, whose taxable value is not computed anymore based on the accounting value. This is an important step in the relation between accounting and taxation in Romania. For this category of tax, taxation legislation is independent and the accounting legislation doesn’t influence anymore the computation of the tax.

Analyzing accounting legislation we can observe an emphasis on the relation of dependence between the two domains, as the accounting changes from a prior period has effects on the fiscal aspects. Also, the entities are required to assure the access to the accounting data for the tax authorities and the establishment of contraventions and application of the fees are made by persons with attributions of fiscal inspection and financial control.

Even if the taxation legislation is the one who has dependency directions on the accounting legislation, it must be analyzed the type of relation between the two domains on the application of legislation.

The dependency of taxation on the accounting at the legislation level can influence the application of professional judgment and the accounting treatments, because can intervene the phenomena such as tax optimization, creative accounting or tax evasion. The last two phenomena are a serious problem in our days, which grows and affect both the accounting purpose and the taxation purpose because if the accounting information is influenced by the taxation reasons, the users of financial information are influenced in taking the decisions, and the economic circuit will be influenced too. Also, if the accounting records don’t present an accurate image of the entity, the

taxes wouldn't be computed at their real value.

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## Municipal Debt and Its Economic Effects – The Romanian Case

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### Abstract

*The paper analyzes the municipal debt of Romanian subnational governments and its effects on the economic development of local communities, especially focusing on the particularities of local indebtedness in the context of the recent economic and financial crisis. By combining qualitative and quantitative analysis (based on indicators of the level, structure and dynamics of local debt) we seek to identify the sources of malfunction or inconsistencies in public policy making and further provide alternative solutions to eliminate them.*

*Taking into account the particularities of the socio-economic environment and the current socio-political realities of Romania, as a European Union Member State, our assessments are carried out by reference to the developments in the municipal indebtedness of other European countries, developed but also developing ones. The quantitative analysis is based on both national and European regulations and incident databases of national authorities and Eurostat.*

**Key words:** municipal indebtedness, local guarantees, subnational governments, economic growth and development

**J.E.L. classification:** H50, H75, H76

### 1. Introduction

Self-financing should generally be the key word when it comes to supporting the expenditures of local governments, granted with local (administrative and financial) autonomy. Throughout the modern world, however, the existence of vertical and horizontal fiscal imbalances, dictated essentially by the heterogeneity of local fiscal potential, combined with some equivalence of local public needs, causes a permanent search of local authorities for additional resources to fully cover local expenses. Under these circumstances, central public authorities resort to different solutions for restoring fiscal equilibrium (operating endowments, grants, subsidies, transfers, amounts and quotas deducted from some taxes to central budgets, etc.), while also recognizing the right of local authorities to borrow money or guarantee the loans of other local entities.

Resorting to extraordinary resources (in particular, borrowing) to cover local budgetary imbalances is not, however, a viable solution in all circumstances (depending, for example, on the conditions on financial markets, the existing legal debt ceilings, the rating or creditworthiness of local authorities, etc.) and practicing it basically means the postponement of raising taxes to finance public expenditures, as the former are the main source of public resources used to repay debts and pay the additional costs resulting from borrowing (with interest, fees, etc.). For these reasons, the regulation of local indebtedness should be closely connected with the socio-economic realities of local communities, avoiding both the creation of an illusory, unrealistic (legal) indebtedness potential and the eventual over-indebtedness of local authorities. From this point of view, the existence of local debt limits, the prior authorization of local loans, the imposition of guarantee funds or the restricting of destinations of borrowed resources are essential issues that the regulator should consider.

Although the need to borrow is sometimes associated with local authorities in difficulty or with a lower economic and fiscal potential, we should say that precisely in these cases borrowing is a less viable solution, as these communities have lower financial credibility and possibility to guarantee new debt. So public loans are not necessarily a solution reserved only for situations of crisis, but can be used as a tool to influence local economic development, provided that borrowed resources are directed to investments of economic nature or to support private economic activities, thus entailing the future growth of local tax base and generating (even at unchanged tax rates) higher fiscal receipts to cover the additional public expenditures driven by loans. This reasoning, together with the recognition of local administrative autonomy, lay behind the regulation of Romanian local governments' indebtedness, through the law on local public finance: *"Local councils, the councils of counties and the General Council of Bucuresti, respectively, may approve the contracting or guaranteeing of internal or external loans over the short-, medium- and long-term, for local public investments as well as to refinance local government debt."* Administrative-territorial units may also benefit from external loans contracted or guaranteed by the central government.

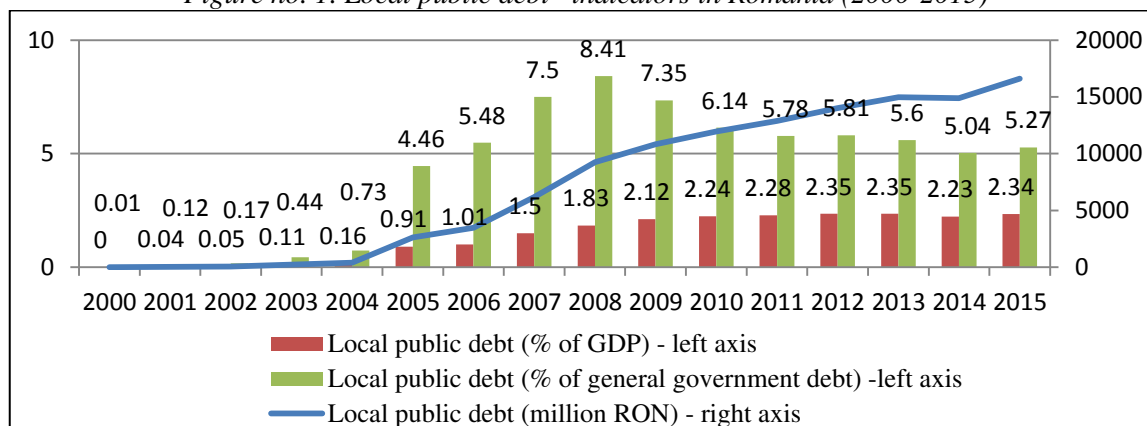
## 2. Municipal indebtedness in Romania – some stylized facts

The evolution of municipal debt in Romania is the combined reflection of the characteristics of local social needs and the developments in the legislative framework, filtered through local public decision making. In other words, in some cases, although the legislative framework allowed for local indebtedness, and local social needs were urgent, local decision makers have shown excessive caution with regard to borrowing, especially prior to 2000.

Looking at the dynamics of local public debt in Romania, we can see that its accumulation occurred mostly after 2004, against the background of the development of local authorities' capacity to use public loans to finance local investment projects, as a result of the comprehensive reform program initiated at the level of local governments starting with 1998, with the aim to enhance the financial autonomy of administrative-territorial units.

From this perspective, the trends registered in Romania apparently were contradictory as, while the own revenues of local authorities increased, due to the legislative reforms of local public finances, local public debt also increased, on the background of recognizing the right of local authorities to contract and guarantee loans, since 1998. Growing own resources, but still well below local expenditures and real local development needs (particularly with regard to infrastructure), encouraged local authorities to borrow or guarantee local loans, as the aggregated data in fig.1 regarding the size and dynamics of overall local public debt prove.

Figure no. 1. Local public debt\* indicators in Romania (2000-2015)



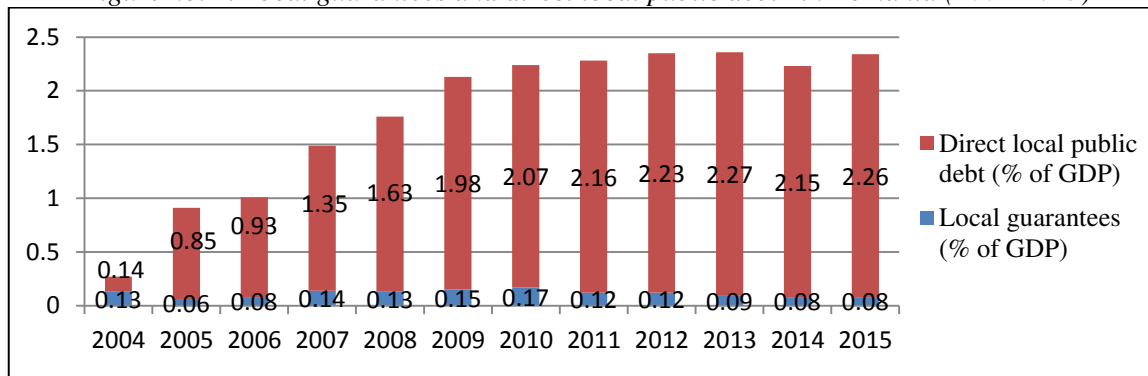
\*local public debt is defined according to Government Emergency Ordinance no. 64/2007

Source: the authors, data from the Romanian Ministry of Public Finance (2016)

The synthetic data in fig. 1 also reveal the fragility of Romanian local authorities' indebtedness potential, as it can be seen that during the years of crisis (since 2009) municipal debt grew at a

slower pace, on the background of the contraction of local governments’ own revenues. Compared to the real needs of local sustainable development in Romania, these extraordinary revenues can not be considered as sufficient, even though they have been consistently completed in some specific cases with financial resources drawn from the EU funds.

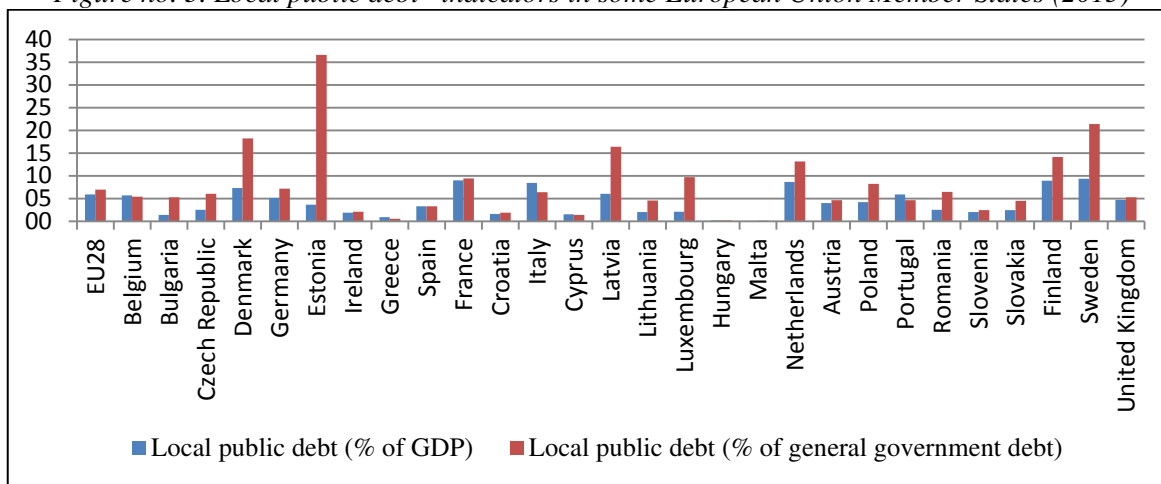
Figure no. 2. Local guarantees and direct local public debt\* in Romania (2004-2015)



\*local public debt is defined according to Government Emergency Ordinance no. 64/2007  
Source: the authors, data from the Romanian Ministry of Public Finance (2016)

Structurally, local public debt resulted mainly from direct loans, as local authorities proved to be quite cautious in providing guarantees for the loans of economic operators (fig. 2). This is quite reprehensible, since it is usually accepted that the guarantees granted to local agents could be connected more directly to local development, given that the resources coming from the direct loans of local authorities were in many cases used to finance projects with low economic rentability, mainly social and cultural ones. However, this caution could be justified by the features of an unstable business environment, in which economic agents rarely show the credibility required for local authorities to guarantee their loans. On the other hand, the legal debt limits established by central authorities denote constraints on the freedom of local decision-making to the extent that the local portfolio of public development projects is more consistent.

Figure no. 3. Local public debt\* indicators in some European Union Member States (2015)



\*local public debt is defined according to ESA 2010  
Source: the authors, data from the European Commission (2016)

By comparison to other EU Member States, the public debt of Romanian local governments, of only 2.5% of GDP, is well below the European average of 5.9% (fig. 3). Among the most indebted local governments are those of EU15 Member States, namely France (9.0% of GDP), Italy (8.4%), the Netherlands (8.6%), Finland (8.9%) and Sweden (9.3%). Romania's situation proves to be similar to that of the new Member States which joined EU in 2004, 2007 and 2013, most of them

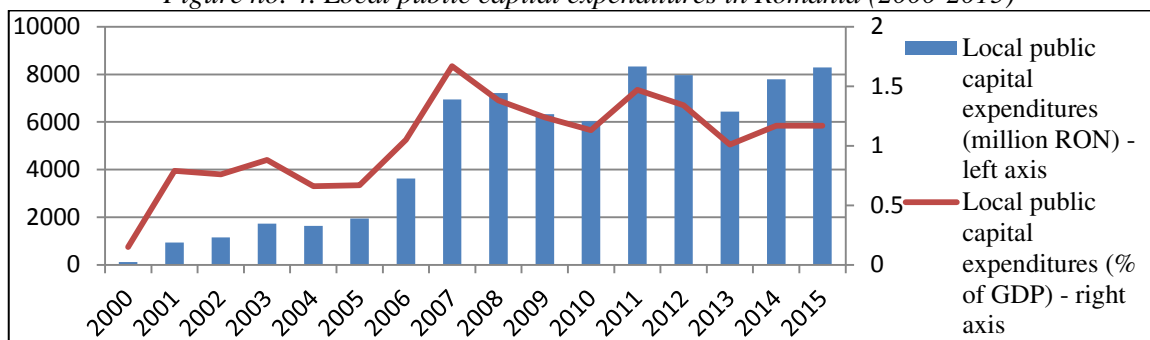
from Central and Eastern Europe. At the end of 2015, local public debt represented 1.4% in Bulgaria, 4.2% in Poland, 2.4% in Slovakia, 2.5% in the Czech Republic, 0.2% in Hungary and 1.6% in Croatia, a much lower level than the one registered in EU15 developed Member States.

This situation can have many explanations, being the result of both the lack of experience and unwillingness of local authorities in these countries to use debt resources and the underdeveloped legal framework (Dafflon *et al.*, 2009; Freire *et al.*, 2004). From another perspective, one can admit that, given the smaller amount of financial resources collected to local budgets, including as a result of the lower economic development, the level of public debt that local governments in these countries can sustain is generally lower. One of the conclusions highlighted in the literature on government debt, which we consider to be perfectly applicable to the subnational level, is that less developed countries record lower affordability thresholds and may encounter problems in honoring their financial obligations at much lower public debt levels compared to the developed ones (Callen *et al.*, 2003, p. 120). Last but not least, the specific characteristics of the Romanian capital market may justify the quite modest use of municipal borrowing, as there were cases where some local authorities have issued prospectuses for bond issuance that lead to no concrete results. From this perspective, one significant adverse effect (even if its impact over the long-term is debatable) refers to the widening of the economic and social development gap between the "richest" communities, which benefited of more favorable conditions for borrowing, and the "poorest" ones. In this regard, it is to be criticized that neither the Romanian regulations on public finance nor the promoted governmental financial policies took into account specific measures aimed at encouraging the poorest communities to borrow, in order to support the „catching-up" in local development, at least by providing a separate guarantees ceiling for the loans of such local collectivities.

### 3. Some economic effects of local public debt

The Romanian legislative framework imposes conditions on the destinations that local governments can give to borrowed resources, restricting them to investment projects or local debt refinancing, so municipal indebtedness should be reflected, to some extent, into the evolution of public capital expenditures and, in this way, into local economic development. However, the synthetic data in fig. 4 show that, in recent years, these capital expenditures recorded quite small sizes, in nominal figures and as a share of GDP, against the background of a financial administrative autonomy more clearly regulated only after 1998. Basically, the low economic potential of local communities and fragile local tax base reflected themselves in low budgetary revenues, often insufficient even to cover the operational expenditures of local governments (which have constantly grown), so capital expenditures had to be sacrificed.

Figure no. 4. Local public capital expenditures in Romania (2000-2015)

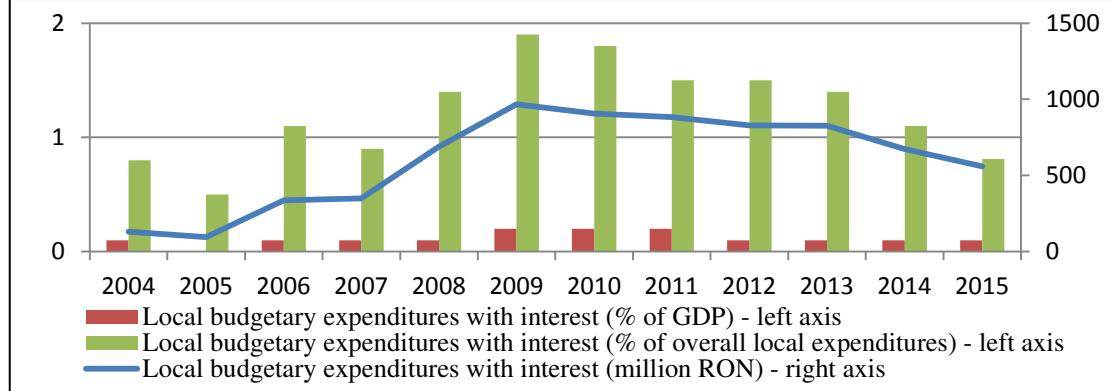


Source: authors' calculations, data from the Romanian Ministry of Regional Development and Public Administration (2016) and the Romanian Ministry of Public Finance (2016)

The short period of high economic growth registered after 2004 enabled, by higher budgetary revenues, to put a greater emphasis on infrastructure, housing and environmental needs, so local capital expenditures became more and more important, exceeding 1% of GDP since 2006. However, many of the expenditures in question were represented by repairing costs of various public institutions (schools, hospitals, social homes), with a significantly lower impact on local

economic development. Also, they are notorious the issues regarding the efficiency of the use of these funds, namely that of fraudulent public procurement and corruption. Another important aspect to be noted refers to the evolution of these expenditures during the financial and economic crisis (2009-2010), when their role noticeably became less important, as they have been sacrificed in favor of transfer expenditures (especially with the remuneration of public employees and social security).

Figure no. 5. Local budgetary expenditures with interest on public debt in Romania (2004-2015)



Source: the authors, data from the European Commission (2016)

The revenues raised at the disposal of local authorities through means of borrowing also generate (negative) economic effects resulting from the associated costs, mainly with the interest on local public debt (fig. 5). In Romania, these expenditures increased until 2009, reaching a share of 2% of the total local budgetary expenditures. Although such figures are not alarming, their proportions must be assessed in relation to the overall size of local revenues, the interest expenditures to be paid in the future limiting the room for maneuver of local authorities.

Table no. 1. GDP per capita at national and territorial level in Romania (2004-2014)

Year	GDP/capita at national level (EUR/inh)	GDP/capita for NUTS 2 regions				GDP/capita for NUTS 3 regions			
		max. (EUR/inh)	region	min. (EUR/inh)	region	max. (EUR/inh)	county/ Bucuresti	min (EUR/inh)	county/ Bucuresti
2004	2900	6000	Bucuresti-IIfov	1900	N-E	6200	Bucuresti	1400	Vaslui
2005	3800	8800	Bucuresti-IIfov	2400	N-E	9100	Bucuresti	1600	Vaslui
2006	4600	10500	Bucuresti-IIfov	2900	N-E	10800	Bucuresti	2100	Vaslui
2007	6000	14100	Bucuresti-IIfov	3800	N-E	14700	Bucuresti	2500	Vaslui
2008	6900	17600	Bucuresti-IIfov	4200	N-E	18400	Bucuresti	3200	Vaslui
2009	5900	14100	Bucuresti-IIfov	3700	N-E	14700	Bucuresti	2700	Vaslui
2010	6300	15200	Bucuresti-IIfov	3800	N-E	16000	Bucuresti	2700	Vaslui
2011	6600	17100	Bucuresti-IIfov	3900	N-E	18100	Bucuresti	2800	Vaslui
2012	6700	15600	Bucuresti-IIfov	4200	N-E	16800	Bucuresti	3300	Vaslui/ Botosani
2013	7200	16900	Bucuresti-IIfov	4500	N-E	18600	Bucuresti	3400	Vaslui
2014	7500	17700	Bucuresti-IIfov	4700	N-E	...	...	...	...

Source: the authors, data from the European Commission (2016)

The global analysis of the local debt and local economic development of a country should not be sufficient, to have an accurate picture of the phenomena it is also necessary to assess the territorial dispersion of social welfare and indebtedness, as statistical averages can hide very different realities. The data in table 1 show a large discrepancy between different regions and counties with respect to their level of development (expressed by per capita GDP), with the wider difference being registered between Bucuresti-IIfov region (also the most indebted region of Romania) and the North-East region. Moreover, during 2004-2015 we cannot talk about a real

catching up of the regions ranking last. Under these circumstances, it cannot be appreciated that local indebtedness played a role in the equation of harmonious local and regional development in Romania over the past decade, and more attention should be paid to financing local economic development in the future.

#### 4. Conclusions

The balanced economic development of a country depends on how local authorities understand and assume their role of active agents of development, fructifying the legal attribute of administrative and financial autonomy. In Romania's case, the lack of progress in the field has often been motivated by insufficient financial resources, which called for the use of local borrowing as an alternative to finance local development projects. However, based on existing data, it cannot be said that local indebtedness has so far proved to be an important part of the public policy equation on local development financing in Romania, as the results are quite modest. Although some progress has been registered, the recent economic and financial crisis has induced new difficulties, resulting in both a more difficult access of local authorities to borrowed resources and the change of emphasis from local government capital expenditures to current ones, with negative effects on medium and long-term development.

An important issue is that of the real local indebtedness capacity, the local economic potential being, in many cases, a low one. This calls for measures to encourage municipal associations, as means of enhancing local indebtedness capacity and supporting the development of projects of common interest. To do this, a special category of interadministrative transfers from the state budget could be introduced, meant only for financing the common projects of local communities, and matching-grant type conditional transfers should also be more widely used. It is also necessary to rethink the conditions for municipal borrowing, in order to convert them into active regulatory instruments to encourage and support the more disadvantaged local communities to catch-up with the more developed ones, both by customizing the limits of local indebtedness and by delineating separate guarantees ceilings (at the level of central authorities) for the loans of different types of local communities.

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10. \*\*\* Law no. 273/2006 on local public finance

## Monetary Policy Strategy in Romania

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### Abstract

*Choosing this research theme was made because some European countries went through a period of post-communist transition, moving from a planned economy to a type of market economy, which has been the emergence of new events in monetary policy. Thus, each country had to designate a monetary authority to manage and control the monetary policy developments by using monetary policy strategy. Also, the fight against inflation is a prerequisite for stimulating sustainable national economic growth.*

**Key words:** strategy, monetary policy, inflation, price stability

**JEL Classification:** E31; E58.

### 1. Introduction

"Economic policy is a deliberate state intervention in the economy in order to realize certain goals (structural or conjunctural)" (Basno *et al*, 1999). In other words, the primary objective of ideal monetary policy is macro-stabilization. Macro-stabilization requires sustainable economic growth (Vasile *et al*, 2013), a balanced state budget, a zero level of unemployment and a balanced trade balance based on price stability. In reality all these requirements listed above cannot be met simultaneously.

It notes the existence of two monetary policy strategies with which banks may be related to the purposes of consistency and precisely transitional strategy based on the objectives and direct targeting of inflation (Costică, 2005). Noting that the transitional objectives are no longer operative in the past two decades, central banks in developed countries have successfully introduced the direct inflation targeting as a monetary policy strategy.

Specialists in monetary policy emphasizes that maintaining price stability remains the ultimate goal. Inflation is stable, positive and low. This view is different from one central bank to another, holding monopoly in compliance with and essential objectives of monetary policy (Balaban *et al*, 2012). Monetary policy is the main pillar of macroeconomic macro stability program in a national economy and is one of economic policy instruments with which trigger demand and supply of money in the economy.

### 2. Sustainability monetary policy

Price stability is the ultimate objective of monetary policy; the central bank can act on it through an indirect control. Also, this goal remains favorable due to the complexity of the transmission mechanism of monetary policy, involving effects on specific decisions. Practice argues that achieve the objectives of this policy can be achieved by using monetary policy strategy. The

macroeconomic analysis requires economic, in any event, if the national economy is in recession (Aceleanu, 2009) or expansion, the total production of goods and services on the market, which manifests a certain level of inflation.

The Central Bank is the monetary authority with responsibility for ensuring the purchasing power of the domestic currency market and the role of maintaining financial stability.

Monetary policy in a national economy can be expansionary or recessionary by increasing and decreasing the money supply, money demand, interest rates and reserve requirements in the economy. In the short term, monetary policy (Ball *et al.*, 2003) expansionary lead to a reduction in unemployment and economic growth and long-term price increases and wage determined by the private sector are offset by a lax monetary policy. So in the long run will increase inflation and economic situation is altered by its negative effects reflected on the inflation rate, when they are independent of short-term temporary special central banks being able to avoid meeting them.

The essential objective of monetary policy is the sustainable price stability. Price stability is configured as the most important key objective of monetary policy (Costică, 2002). More attention is given to definitive surveillance relative price stability, but not the absolute. This does not require that all prices be fixed or stable. A low unemployment rate consistent with a higher rate of inflation leads to some higher costs. Increased demand salaries remain the same regardless of business sector productivity. A high rate of inflation causes a random distribution of income, providing that those records revenue opportunity to take advantage of variable salary increases made in a short time than those who have a fixed income. Price stability is achieved when operators no longer take into account their business decisions to expected price increases.

Since the transmission mechanism of monetary policy is multilateral requiring long and variable delays in realizing the consequences of decisions, price stability is a goal of monetary policy over which the central bank can exercise only indirect control. Practice has shown that achieving this ultimate objective can be achieved using various monetary policy strategies.

Definition of price stability differs from one central bank to another, designed to be the primary objective of a national economy. Internationally it is considered that the trend of transition from the fixed exchange rate regime more flexible exchange rate provides capital account liberalization and a better appreciation of the national currency against other currencies. Fundamental objective of price stability is based showed that some monetary policy strategy, which is geared towards setting intermediate targets: targeting monetary aggregates (monetary base M0, M1, M2 and M3); direct inflation targeting and exchange rate targeting. Monetary policy strategies, interbank interest rate (d') amends the consumer price index (I.P.C) in the population of a given country (Dumitru, 2009).

Inflation targeting can be an effective strategy only to the extent that inflation follows a downward trend, which may give greater credibility and macroeconomic stability.

The decision to move to inflation targeting strategy was accepted after preconditions characteristic of this change were made. Preconditions for transition to inflation targeting strategy according to NBR ([www.bnro.ro](http://www.bnro.ro)):

- lowering the annual inflation rate below 10%;
- accumulating a gain credibility by the central bank;
- strengthening the independence de jure and de facto for central bank;
- progress in fiscal consolidation and improving coordination between monetary and fiscal policy, lower fiscal dominance;
- flexible exchange rate and reducing the vulnerability of the economy to fluctuations of this variable (Isărescu, 2003);
- recovery and strengthening the banking system and higher bank intermediation;
- increase transparency of the central bank and the central bank scope and intensity of communication with the public and financial markets, including matters related to the new monetary policy strategy preparation and adoption;
- clearer picture of the macroeconomic behaviors and mechanisms of functioning of the economy to identify and enhance the effectiveness of monetary policy transmission channels (<http://www.bnr.ro/Tintirea-directa-a-inflatiei-711.aspx>).

At the end of 2004, inflation reached for the first time in 14 years, on the level of a figure, registering a value of 9.3 percent. At times when other countries (Svensson, 2003) agreed strategy of inflation targeting, similar values were specified.



The absence of fiscal dominance in the years prior to acceptance regime of inflation targeting, fiscal dominance has decreased, largely due to fiscal consolidation and more coherent macroeconomic policy mix. As a result, both consolidated budget and public debt have had more satisfactory values (Isărescu, 2005).

The exchange rate has become more flexible in October 2004, NBR decided to significantly reduce foreign exchange intervention, moving from a fixed exchange rate regime to a flexible exchange rate. In 2004, the euro became the sole currency of reference of the exchange rate.

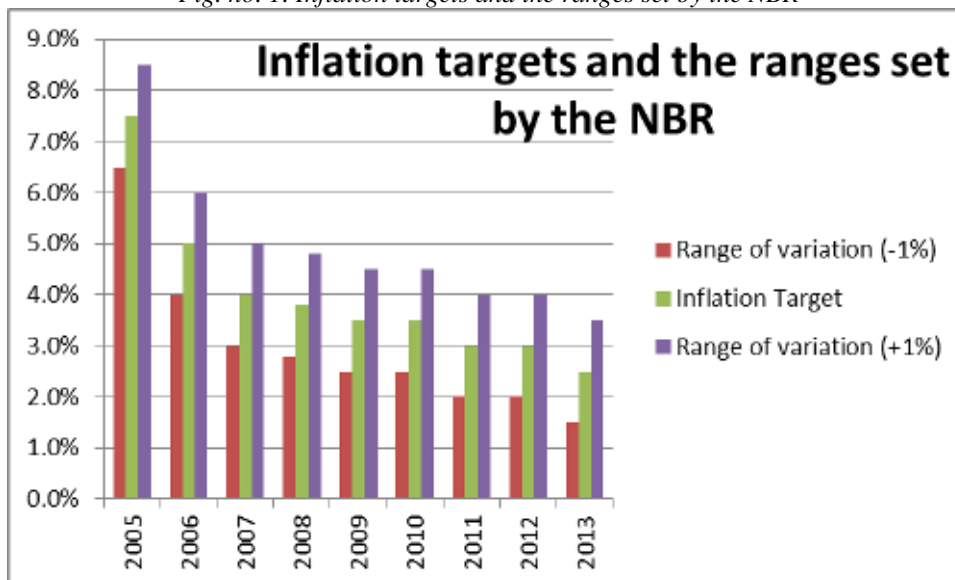
Increased performance was due to the banking system prudential regulations imposed by NBR, surveillance activities, as well as restructuring and privatization; the banking system in Romania marked a significant consolidation.

Inflation forecasting capacity, the NBR put particular emphasis on this issue. In this case, set up under its domestic in April 2004, Department of Macroeconomic Modelling and Forecasting.

Given that Romania's national economy is in a deflationary process, a sustainable inflation rate is consistent with the quantitative definition of price stability. Inflation targets are annual and are set for a period of two years (Popa, 2009).

Inflation targets and acceptable NBR range of variation for inflation during the years 2005-2013, are as follows (see fig. No. 1):

Fig. no. 1. Inflation targets and the ranges set by the NBR



Source: <http://www.bnro.ro>

National Bank of Romania chose a gradual decrease in inflation targets, setting targets credible but realistic thereby strengthens the central bank's credibility. The inflation target for 2010 was specified by the central bank at an amount identical to that of the previous year. This was due mainly inflationary shocks multiple and successive inflation target of failure, both in 2007 and 2008 ([www.insse.ro](http://www.insse.ro)). However the decision to maintain the inflation target in 2010 equal to that of the previous year was implemented because of the need to achieve the inflation target, an essential goal to maintain the central bank's credibility.

The price of food products and oil prices is characterized by a high degree of unpredictability and through a direct major impact exerted on the consumer price index evolution. Inflationary effect of these factors was confirmed to be unexpectedly large and durable, involving multiple successive revisions of quarterly and adverse macroeconomic projections in the medium term.

Other inflationary factors which recorded unfavorable development of NBR initial expectations, helping to overcome inflation targets were administered price adjustments and indirect tax. Direct attempt to counter the effects of these shocks on the supply side would have required a stronger tightening of monetary policy designed to force rapprochement with faster inflation as the target. Such a reaction can lead to major fluctuations in economic activity and social conditions. In this context, the National Bank of Romania preferred to tolerate a temporary deviation of inflation from the target, directing its efforts towards avoiding the risk of side effects of these shocks in order to

prevent their translation on inflation expectations and on pricing behavior and wages. Another major difficulty for achieving the inflation targets was a shock on the demand generated by the easing of fiscal policy, especially for incomes, but also by rapid credit expansion amid higher capital inflows. In this perspective, the monetary policy over quasi-integral (burden) bringing excess demand at levels consistent with achieving the inflation target. From the perspective of domestic absorption of excessive dynamic extension and the widening current account deficit has been complicated ensuring sustainable disinflation, maintaining associated with high growth rate of external debt (Mărcuță *et al*, 2013). This action causes a rapid depreciation of the RON against the major currencies. In this context, the central bank responded with a restrictive monetary policy, using all the tools they had available. The monetary authority announced public about deviations from the inflation target and the causes thereof, and the measures taken with regard to sustainable decline in inflation rate path implied by medium-term targets. Apart from the rise in the restrictiveness of monetary policy, NBR repeated growth consistent mix of economic policies in order to support the strengthening of the fiscal policy, a more prudent (Vasilescu, 2011) income policy and stepping up structural reforms for labor market. Such an approach was considered essential to avoiding the minimum financial and economic costs of significant de-anchor inflation expectations; they may allow return of inflation to the target trajectory consistent with achieving the medium-term.

### 3. Conclusions

What we have discussed in this article show that crossing toward a new monetary policy strategy was not easy, and success in achieving the goals set was based on several factors, both economic and political.

Considering the rather slow disinflation in Romania, the inflation rate falling below double figures only after 14 years of transition, and episodes that disinflation was interrupted, consider that a new strategy to strengthen the disinflation process by steady-state prices, helping to anchor inflation expectations of the public by its transparency, was more appropriate. However, the use by August 2005 the monetary policy of monetary targeting has been shown to be a good support for lower inflation in 2004 reaching a single digit inflation rate.

In the future, the real challenge for Romania is to ensure sustainable growth of economic activity. It must be guaranteed by a sound monetary policy, but, importantly, related to fiscal policy likewise. Otherwise, the repercussions will soon appear, as happened in the years following the outbreak of the economic crisis, when pro-cyclical fiscal policy (and a number of other exogenous factors) has blurred many positive effects due to monetary policy.

The main conclusion we can draw from that article is that switching to direct targeting of inflation was a new concept which has enhanced public accountability of the central bank and compelled the collaboration between agencies influencing economic processes.

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## Analysis of Commercial Companies Profitability in the Garment Industry in Romania

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### Abstract

*This paper underlines the importance of an analysis of the reality behind the garment industry companies in Romania, investigating the bases and constants of its environment, while determining Romania's current position regarding turnover.*

*Among the research objectives of this paper we outlined the study of the profitability of the Romanian commercial companies in the garment industry, using real data. In order to achieve this purpose, we used the literature in the field of management accounting and case studies, showing the strengths and weaknesses of the companies in the Romanian garment industry, as well as a real situation in this field for 2014.*

*The paper ends with the conclusions regarding the status of commercial companies in the garment industry at the national level.*

**Keywords:** managerial accounting, profitability, competitiveness, the garment industry, economic performance

**J.E.L. classification:** D24, M41

### Introduction

The garment sector has a long tradition in our country, being represented in all important cities of the country and represents an important branch of Romanian industry. In the last decade, the garment industry has witnessed more difficult times, marked mainly by the following stages:

- A dependency of exports and imports due to the Lohn system.
- A decrease of the Lohn type production itself. The migration of the Lohn system to countries in Asia and Africa had a significant contribution to the decrease of the companies' production in the garment field;
- Integration in EU and the member condition in 2007.
- The global crisis and fierce competition, at a global, European and regional level and the manifestation of its effects in the national economy; the current period is a delicate one for the entire Romanian economy, not only for the garment industry, the crisis having a particular effect on:

- cash-flow and payment capacity of economic agents;
- access to funding;
- demand for clothes;
- volume of activity, by losing manufacturing contracts.

All these factors have threatened the future activity of the companies operating in the garment and shoes industry. In this economic-financial situation, more than ever, the economic activity of companies needs to be based on the principle of economic efficiency of each activity, in order to obtain a maximum output, a superior profit margin as compared to the previous fiscal intervals, based on a rational expenditure of resources.

Although they registered a continuous decrease within the industry and exports, the garment-textile sectors are still very important from a social point of view, with mostly female employees

and a total number of units and employees in abrupt descent at the level of the last years. The major structural changes within the sector, mainly determined by the abandoning of or giving up the largest parts of the natural and synthetic threads and fibers production units, have led to a dependency on imports and a greater adjustment to the lohn system, followed during the last two years by the migration of the lohn wave to the east. As a result, the value made in the country, at the level of the sector's value chain, has decreased and the production units in the field were forced to quickly boost the efficiency of their activity, to identify new business opportunities and to adapt to new and challenging market conditions.

In order to cope with the current economic background and to be competitive at a world level, organizations will have to understand the way competitors are able to maintain a low level of costs, to quickly boost efficiency, to adapt to the new market conditions and identify their vulnerabilities. Thus, the accent shouldn't be placed exclusively on state of the art retechnologization, but also on the way of thinking and on a cost calculation policy to maximize the turnover and, implicitly, the profit.

Under these circumstances, the decisive role played by the organization's management appears the more relevant, in the light of the decisions taken and actions implemented in view of increasing the efficiency of the company's activity; the management of the enterprise thus constitutes a determining factor for the increase of economic efficiency.

In this paper we thought it would be relevant to make an analysis of the reality behind the companies in the garment field in Romania, by investigating the bases and constants of its environment, as well as the current condition held by Romania in terms of turnover.

## Literature review

In Anglo-Saxon countries, management accounting includes all the “valorized” information the managers need and not only cost related information. It is admitted that the purpose of management accounting reports to the capacity of the mobilized economic resources and not only to their consumption.

In France, management accounting is defined as an “analysis technique” of an entity and of the manufactured products in order to control the internal production costs by means of cost information.

Ever since 1996, the National Accounting Council in France defined management accounting as follows: “management accounting is destined first of all for the needs of the enterprise, constituting a part of its information system and providing an economic modeling of the company in view of meeting the performance measurement objectives and support in decision taking” (Cokins et al., 2012, 33). In its competence also fall the process of performance assessment and the decision founding methods.

(Bouquin, 2004, 11-12) defines management accounting as an “information system meant to help managers and which influences the behavior by modeling relationships between consumed allocated resources and intended finalities”.

The definition of management accounting given by the National Accountants Associations, currently called the Institute of Management Accountants (IMA, 2008) in the US is: “the process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of financial information used by management to plan, evaluate and control an organization and to assure appropriate use of and accountability for its resources”.

Management accounting, whose initial objective was cost calculation, has considerably expanded its role by providing information systems to orient the dynamics of the supply-production-sale-collection chain with regard to their impact on costs and results. The main objectives of management accounting are: cost calculation, determination of results and profitability of manufactured products, executed works and services performed, forecast of expenses and income by drawing up an internal network of budgets, the control of costs and budgets by means of deviations and the provision of the necessary data to take decisions regarding the management of the entity (Cokins et al., 2012, 33).

Management accounting is oriented towards providing information to the internal management in the following fields:

- Cost. „The permanent increase of efficient economy and of the demands of the entity management in the context of the market economy determines a need to improve the cost calculation method” (Coman et al., 2012, 522). In addition, cost efficiency is of a great importance and it helps companies in the daily activity to determine deviations.

- Planning and budgeting. Management accounting helps companies in setting objectives by “providing the necessary information in decision taking regarding the production systems that were adopted, the company policy regarding prices, the commercial policy and the appreciation of the invested capital” (Breuer et al., 2013, 357).

- Evaluation of performance regarding profitability, income and productivity. According to (Coman et al., 2012, 522), performance „is not measured, it needs to be actively created, so that management accounting requires the use if its talent to contribute to its «ex-ante» creation, in the context in which it will allow the maximization of profitability to get «ex-post» results”.

### Research methodology

The research methodology involved research techniques and instruments such as the analysis, comparison, case study, as well as investigation methods.

In order to identify the current stage of research, we consulted a bibliographical database comprising books and articles published in the country and abroad, in fields such as: accounting, management accounting, economic informatics, management, marketing, business administration, statistics, general economy, finance, technology information, etc.; statistics, financial reports and specialized magazines were analyzed. By consulting these bibliographical references we achieved an overall image regarding management accounting and profitability of companies in the Romanian garment industry, both at a theoretical and practical level, we observed the evolution of management accounting from the past to the present and we created a general image regarding Romanian organizations and, why not, maybe identified the weaknesses, strengths, challenges and opportunities the organizations in the garment industry have been confronted with.

In view of analyzing the profitability of the Romanian commercial companies in the field of garment industry, we analyzed a sample of the first 100 companies in the garment industry.

The population under analysis represents the entire units part of a collectivity which constitutes the object of a statistic endeavor. In this research, the population is represented by the companies in the garment industry (especially those with the CAEN code 1413 – Manufacturing of other clothing articles (exclusively underwear) for 2014; the number of companies with this CAEN code is 3495 and the number of companies with turnover over 0 lei is 2609 (Ministerul Finantelor Publice, 2016). The sample represents the partial collectivity taken out of the total collectivity in view of statistic analysis, and represent 63.34% (4.220.264.765 lei) (Ministerul Finantelor Publice, 2016) of companies with the CAEN cod 1413.

### Case study

In this research, the sampling was made based on the principle of rational choice, the selection of a number of 100 commercial companies in the garment industry, selected and ordered according to their turnover. The research is based in the creation of a database using SPSS.

We analyzed the turnover variable, because it is the most important factor in describing the size and profitability of a commercial company. In table no. 1 we can see the minimum, maximum turnover, the mean turnover, standard deviation, variance, kurtosis and asymmetry of the turnover.

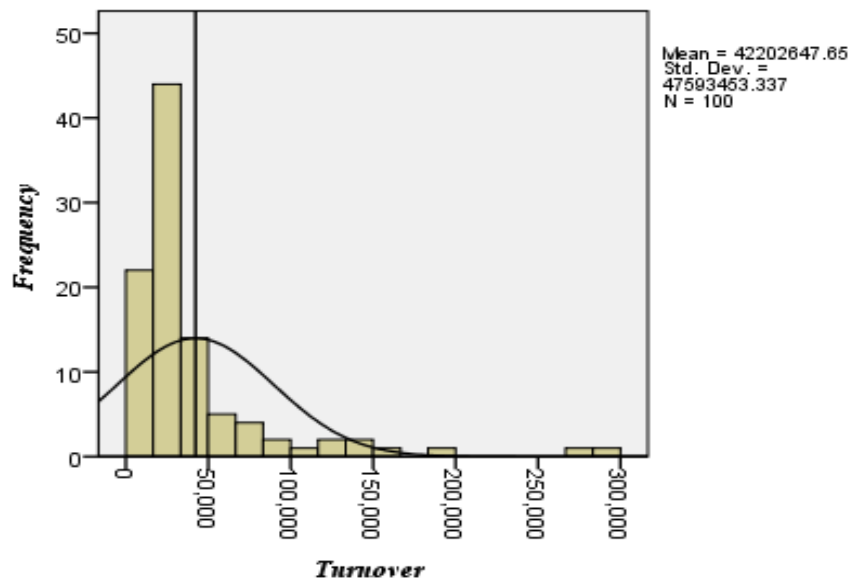
*Table no. 1 The turnover analysis*

N	Valid	100
	Missing	0
Mean		42202647.65
Std. Error of Mean		4759345.334
Median		26966537.00

Std. Deviation		47593453.337
Skewness		3.187
Std. Error of Skewness		.241
Kurtosis		11.643
Std. Error of Kurtosis		.478
Minimum		12023584
Maximum		284264039
Sum		4220264765
Percentiles	25	17360998.50
	50	26966537.00
	75	47055882.00

Source: Own processing SPSS 20

Figure no. 1. Graphical representation of turnover (thousand lei)



Source: Own processing SPSS 20

Table no. 1 reflects the following aspects:

➤ The mean of the turnover for the first 100 companies in the garment industry 42.202.647,65 lei, given the fact that the minimum turnover is 12.023.584 lei, and the maximum is 284.264.039 lei, therefore resulting a great difference between the first and the last one as far as the turnover is concerned. Following the histogram we can notice that 14 companies are close to the mean turnover value, while 43 companies have turnovers below 35.000.000 lei, and the first 2 companies have the largest turnovers.

➤ The median turnover is 26.966.537 lei, which means that 50% of the companies are over this value and 50% are under it;

➤ The asymmetry *Skewness* index shows the extent to which the average differs from the mean value and, implicitly, the extent to which the normal data distribution curve pulls away from the middle, going to the left or to the right. Relatively normal distributions are considered to be the cases in which these indicators are under  $\pm 1.96$ . In this case, we have a **3.187** asymmetry, which means that we are talking about a **positive asymmetry** in the situation in which the mean is higher than the median value, and there appears a distribution of data to the left. In this case we have a positive asymmetry, with the extreme value to the right, also reflected by the data distribution curve.

- Kurtosis refers to the curve height, as compared to the normal one. We may have leptokurtic or platikurtic distributions. In this case, we have a **leptokurtic kurtosis**, because we have a positive value greater than 3;
- We may conclude that each company, out of the 100 companies under analysis, deviated from the mean turnover of the selected sample with an average of 47.593.453 lei;
- The amount of the turnover of the 100 commercial companies is 4.220.264.765 lei, representing 63,34% of all companies with CAEN code 1413;
- Over 50 companies have a turnover in excess of 26.966.537 lei, and over 75% of the companies have a turnover of up to 47.055.882 lei.

## Conclusion

The diagnosis performed evidenced the fact that the garment manufacturing companies in Romania, with the CAEN code 1413, “Manufacturing of other clothing articles (exclusively underwear)”, for 2014, have the largest part of the turnover coming from the sale of manufactured products on foreign markets. In the sample analyzed there was no company manufacturing products only for the domestic market, which leads, of course, to an increase of exports. Most of the companies in the garment industry work in a Lohn system, for various companies or groups of companies from abroad (the most common countries are Great Britain, Spain, Italy, Germany, etc.).

As we can notice from the statistic analysis, there are certain companies with a very large turnover, but with a small number of employees; that can be explained by the fact that most large companies afford to subcontract their foreign orders, counting on following up on orders, product quality as well as the delivery and expedition process to the foreign partner.

The garment – clothing industrial sector is a foreign exchange generating component of the national economy, leading to a balanced regional development, social stability and an adequate environment for private initiative. This industrial sector has the capacity to develop in the future.

We will attempt a continuation of this analysis in the future, taking into account more commercial companies and, of course, the identification of new study variables.

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# Evaluation of Accounting Information System Performance at Trade Entities - Economic Efficiency of Accounting Information System at Trade Entities

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## Abstract

*Information systems, in general, and in particular the accounting ones, in my opinion, are intended to provide, in a timely manner and accurately, basic information necessary for running the entity. Information needed for every decision-making are regarded as knowledge-oriented towards objectives, being about the knowledge that a manager must have in order to be able to take the right decisions in terms of the processes taking place in the framework of the entity.*

*At the same time as a decision is taken on the basis of the available information, the quality of the decision, is directly related with the information available. In order to be able to make a decision as fair, it is necessary to provide a volume of information that satisfies the decisional situation; the volume of information required will be determined by the nature and importance of the decision itself, and the continuity of the decision-making process.*

**Key words:** accounting information system, trade entities, performance, efficiency, software

**J.E.L. classification:** M 40, M 41

## 1. Introduction

Due to the existence of a context increasingly more competitive and a world that constantly changes, trade entities, for instance, must face the challenges by seeking new solutions based on getting the information, and to respond to such needs, the information system, in general, must be subject to continuous changes, adjustments or adaptations until substantial changes or even replacement.

## 2. Accounting information system performance evaluation at trade entities

According to Andone (Andone, 2006, p. 305), opinion with which I agree, when assessing accounting software systems, from the perspective of technology, must, or ought to be, a couple of questions that must be answered as follows:

- How scalable is the accounting software system? Can it comply with business growth?
- How well is running the system where a large number of transactions?
- How will adapt the system to the changes that will occur in the business process?
- You will need to purchase the software and system with functions which are not required for the accounting entity?
- It is difficult to update the software when you want customization of application interface or when business logic changes?

The author also states that the answers to these questions depend largely, by the granularity of software design and if the software can be distributed in the form of components (discrete functional objects, individual, each of them having a different functional task) and not in the form of fully functional modules.

The granularity of computerized accounting applications design affect their *scalability, performance and adaptability*; the author saying that build software applications design granularity

allows functional components to become isolated by task or by role, so that it can be assembled and developed in different ways; situation where accounting software designers are required to account for this and must seek the help of professionals as accountants.

The author considers a starting point for understanding how accounting applications can be designed around a model, on components (pellets) is considering four fundamental levels of functionality of software accounting systems, namely:

- *presentation level*, what the user sees on the screen, the application user interface;
- *validation level*, rules that ensure that data entered or requested by the user are invalid;
- *the level of processing*, the processing carried out in the system, such as the accounting records, financial reporting, etc.;
- *the database level*, the system of storage and accounting data management.

But if you analyse each of these levels separately, it can be seen that each can be broken down into levels of granulation and lower, as follows:

- *presentation-level*- individual data entry forms, the individual data fields within these forms;
- *the level of validation*- individual rules that apply to specific fields or forms;
- *the level of development* - individual processes, such as editing or printing of accounting journals, invoices;
- *database-level*- individual tables of database or columns within those tables.

At the same time within each level, it is possible to identify some components with a lower level of granularity and to be designed as tasks or individual and discrete functional objects within the application. Thus it can be seen, quite simple concept, a software system not as a set of modules, but hundreds, sometimes even thousands of parts (pellets), realizing their own functions within the global functional level.

The author believes that the accounting information systems based on components using discrete components (pellets) able to cooperate in terms of functional, such as together to implement all possible functions and accounting operations. They are granular designed, not modular and may contain components purchased from several manufacturers, selected on the basis of performance; and as with any major change in the design of accounting systems, computer applications based on components bring benefits, but also challenges for users of these systems. The author is mentioning among the benefits, *scalability*, *adaptability* and *low costs*.

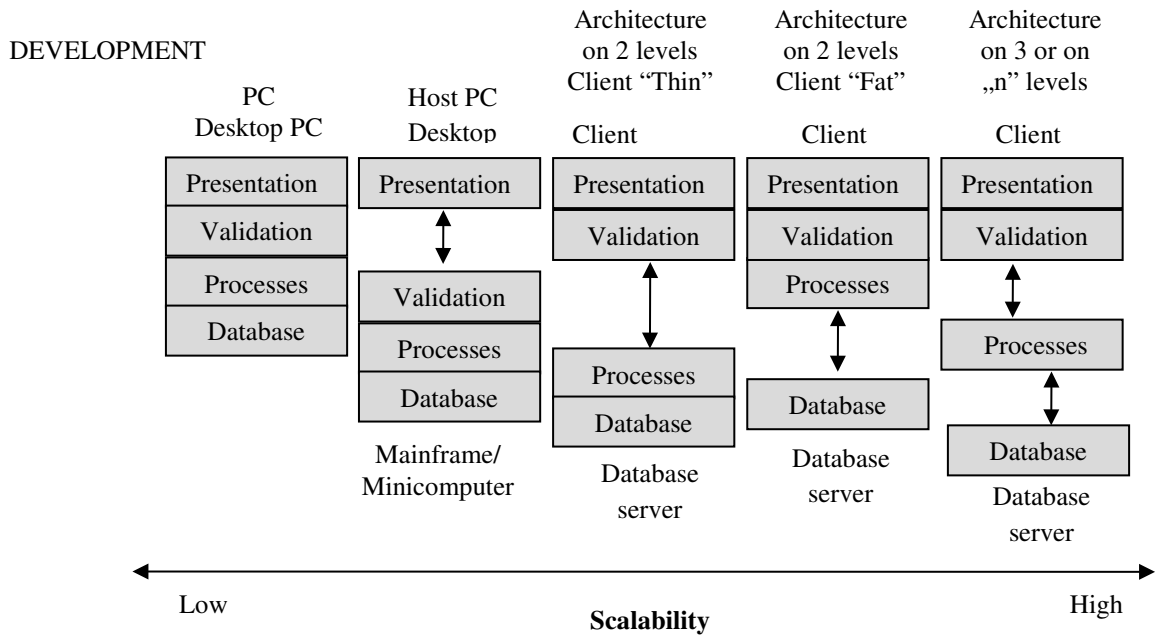
#### 1. **Scalability**

At economic entities in general, and those in the trade, in our case, component-based systems can be developed in a variety of ways, and flexibility is key to their ability to provide three types of scalability in business processing, as follows:

- *transactional scalability*, treating the growing volume of transactions;
- *connections scalability*, to deal with the increase in the number of users;
- *functional scalability*, for the increasing complexity of business processes.

The author presents four functional accounting software which have been developed according to the hardware architecture, as can be seen in the figure below:

Figure no. 1: Common Development of accountancy functional levels along the platform



Source: (Andone, 2006, 307)

As the higher functional levels can be separated on different computers, so the systems become more scalable. The author argues that scalability can be solved by interventions with hardware resources, opinion with which I agree, given that this solution is typically a much more pleasant and more efficient in terms of cost, than changing accounting software; so, at trade entities, for instance, in most cases the solution involves supplementation hardware resources (CPU, memory, data storage drives on servers in the existing accounting system) or, more simply, adding servers to increase the available resources for the entire system. Based on a client/server architecture on two levels (two-tier) can move relatively easily from a three-tier architecture (three-tier) or n-tier (n-tier) without improving client computers or by changing the database server, in turn, may be added to the network, in a simpler manner, application servers or processes that may be cheaper computers.

Finally, I am of the same opinion with the author and that we can conclude that at trade entities, for example, granular functional design and ability accounting software to run as discrete components anywhere in the network shall constitute the reasons for encouraging developments on n levels.

## 2. Adaptability

In view of the above, the level of the lowest granularity, in the case of accounting applications at trade entities, is the module, namely general accounting module, module for suppliers accounting, accounts, receipts/payments module, etc.; modules users applications may or may not have access to each of them or just certain modules, depending on the size and complexity of entities activity, the system being developed as a set of modules for vertical applications.

But at other trade entities to which the user of accounting software applications is no longer a simple executor of trades but a knowledge handler oriented on solving tasks, modular structure is no longer supported, used, because functional tasks go beyond the boundaries of the modules from accounting applications with a lower level of granularity. Thus, users of accounting applications are no longer limited to using only the modules, they can manage an entire business process (i.e. supply) from start to finish, by combining the functionality of multiple modules (purchase, suppliers accounting or general accounting) within their own custom system. In component-based accounting applications, for example, the general accounting term or suppliers accounting are just generic terms to denote a collection of functional components that fulfil the role of traditional accounting modules of general accounting and suppliers accounting.

At trade entities, for example, an accounting software system with a high granularity allows its users assemble related components specialised tasks, because their functions are fragmented

enough to allow functional reassembly, consistent with the needs of business processes; products-management processes or workflow products can achieve the design interaction between such functions.

This approach does not resemble the old habit to turn off menus as options to hide certain operations against a certain type of users, but on the contrary, all functions of the computer system, from all modules are displayed, so that users can combine and match in full accord with the conduct of the business process to be informatized, with all its responsibilities.

Having in mind the above, I agree with the above remembered author and we can appreciate that the possibility for users to assemble the different functions of the application workflow, processes or tasks, illustrates the adaptability of granularly accounting systems.

At economic entities in general, and those in the trade, in particular, another example of adaptability is the use of a dictionary of data within the software that plays the role of metadata for the accounting database; so metadata provides information about the data in the accounting system and how they are used.

In general, according to the author, a central repository of information on all aspects of the accounting data is of great help to users and system administrators because:

- can edit the data dictionary to reflect their specific rules, terminology or messages, and any changes made to a data field dictionary is reflected throughout the accounting application, regardless of where that field is used; so that a single change to a data field in the data dictionary, it will be reflected in the data for each form, report, or window that is using that field.
- on the other hand, data dictionary can provide metadata in a number of different languages, so that at trade entities, when a user is logged, the application to load the requested language. Thus, an accounting system which has a dictionary are often the best solution for international business because the system can be developed in a multilingual environment.

### 3. Low cost

The author is of the opinion that as the accounting information systems will become more granular, the price will decrease, and the implementation and updating of the accounting software will become much more efficient in terms of cost. I also agree that at trade entities, when conducting an accounting system from individual software components, it creates the possibility of buying only parts that is needed; there is also the possibility of updating the system by adding new components, relatively cheaper as the functional entity needs grow.

In conclusion, the author notes that, in an accounting application, there are several components, the faster accounting software manufacturer can implement new functionality, because the new components are based on existing ones, tested and validated, in turn, can inherit much of their functionality.

In terms of economic efficiency study of computer systems, according to Baron (Baron, 2009, p. 38) must be considered certain aspects, of which at least:

- **general appearance**, which take into account the economic side, whereby efforts for establishment and functioning of a computer system to be smaller than the effect obtained, meaning spending resources to be effective;
- **specific aspect**, which takes into account the context (requirements, conditions, features, etc.) of achievement and exploitation of a computer system, meaning everything that comprises the hardware, software, methods, techniques, used, etc.

At economic entities in general, and those in the trade, in our case, the establishment and operation of a computer system involves making some major investments, which must be justified economically and recovered over time. Economic justification shall be considered by classification of expenditure within the limits accepted by the beneficiary, at one point, that is, the computer system must satisfy the accomplished information after it has been put into operation so that the determination of the economic efficiency of the information systems involves determining the effort and determination of the obtained effects.

**Efforts** for the achievement and exploitation of a computer system can be determined by summing up the expenditure incurred, by categories of spending and by the stages of realization, in accordance with the methodology used. The effects obtained as a result of the development and exploitation of the information system can be determined by taking into account a variety of issues

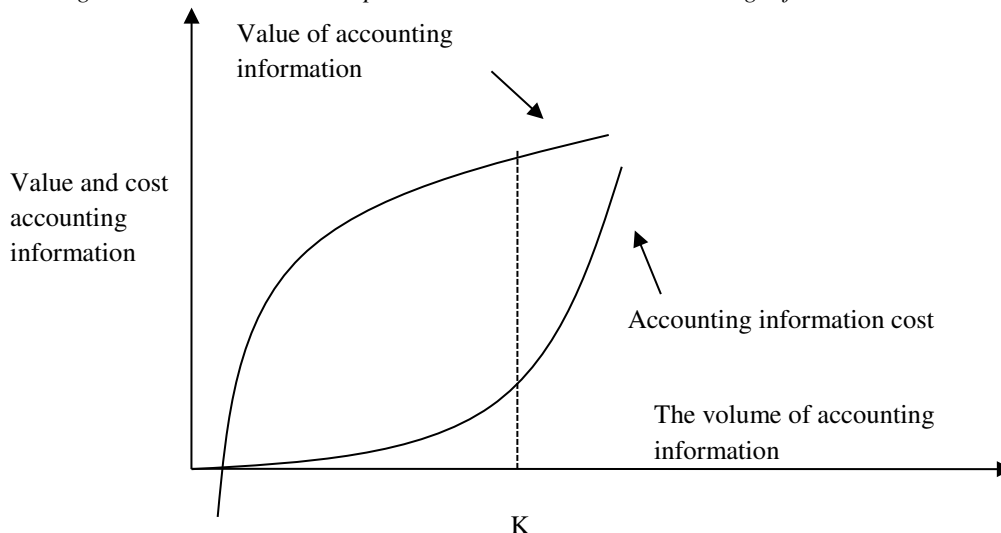
among which, at trade entities, we can mention the following: shorten the time for obtaining the information expected, rigorous substantiation of decisions, improving the management of the activities of the entity, etc.

According to the author mention in economic research were approached different points of view about the economic efficiency of information systems; and between these points of view, with some relevance may mention the following: *usefulness, impact and contribution*.

Considering the *usefulness*, the economic efficiency of the information systems at trade entities occurs when the computer system information complies with requirements of the management of the entity on three levels: strategic, tactical, and operational.

*The impact* of an information system on the activities taking place in the context of an trade entity determines their effectiveness *by the value and cost* of information computer system it provides. According to the author, between value and cost of information must be **an optimal**, in the sense that, at a given point (K), the amount of information will increase proportionally with the increase in the cost of information, after which further growth in cost of information will lead to an increase in the value of this information is insignificant, as can be seen in the figure below, idea that I think it can be applied at trade entities, too:

Figure no. 2: The relationship between value and cost accounting information at trade entities



Source: (Baron, 2009, 39)

At the same time it is possible to assess the economic efficiency and through the contribution of a computer system to increase the effectiveness in any activity within trade entities.

With regard to indicators of economic efficiency of information systems the author is of the opinion that in order to express the usefulness and effectiveness of an information system implemented in any field can use *constructive features* - offered by the report among the effects achieved and efforts-and *functional characteristics* – given by information system capacity to meet the information requirements of the users.

In turn, at economic entities in general, according to the author, and to those in the trade, in particular, in my opinion, these features are caused by various *organisational factors*, specific to the respective entity, beneficiary of the informatic system, and *technical and economic factors*, by analysis of the different variants of realization of an information system, using various indicators.

Among these indicators the author considers that the following may be noted:

- **Coefficient of information requirements (Csc)**, calculated as the ratio between the quantity of information provided by a computer system (Cp) and the amount of actual information provided by system (Cr);
- **Response time coefficient (Ctr)**, calculated as the ratio of the response time of the system (Tri) and the difference between adjusting time admitted computer system (Tra) and the time of driving processes (Tpc);

- **Economic efficiency coefficient (the Eec)**, calculated as the ratio between the sum of the potential economic effects for a specified period of time (See) and information resources needed for the same time period specified (Rin);
- **The coefficient of the term of rehabilitation (Ddr)**, calculated as the ratio of information technology resources (Ri) and economic effects potential (Eep), during the life cycle of the information system;
- **Economy personal coefficient (Cep)**, calculated as the ratio between the economy's potential for employment of staff (Eptm) and working hours are consumed for performing data processing operations (Tmca);
- at the same time the author presents **technical-economic Coefficient (Cte)**, a synthetic indicator, used for the justification of the decision to choose the optimal variant for realization of the computerized system, when other coefficients presented are only relevant for the establishment of an optimal level of efficiency of the system. This indicator can be calculated using weightings which are of importance to be granted to the other indicators presented in the conditions of a minimum consumption or for consumption required to obtain the resources allocated to certain economic effects.

### 3. Diagnosing the accounting information system at trade entities

As accounting information made available to users increases, the flow of information should become more selective; modern computer systems provide users with both information about the socio-economic environment in which the entity works as well as internal information and knowledge generated in the entity. (Fusaru, 2008, p. 18)

At trade entities, for example, all staff, at all levels of the entity, requires information useful for daily activities; but if each uses information as Lupu (Lupu, 2000, p. 31), said, the question arises, what information, who puts at its disposal and what you will do with it once you get?

Information systems, in general, and in particular the accounting ones, in my opinion, are intended to provide, in a timely manner and accurately, basic information necessary for running the entity. Information needed for every decision-making are regarded as knowledge-oriented towards objectives, being about the knowledge that a manager must have in order to be able to take the right decisions in terms of the processes taking place in the framework of the entity.

At the same time as a decision is taken on the basis of the available information, the quality of the decision, is directly related with the information available. Thus, in order to be able to make a decision as fair, it is necessary to provide a volume of information that satisfies the decisional situation; the volume of information required will be determined by the nature and importance of the decision itself, and the continuity of the decision-making process. Also awareness is always determined by the data timeliness, accuracy and speed with which they will be available for the decision making person.

Together with the development of technology and communications issues, each trade entity, for instance, must have an accounting information system functional and flexible to meet the needs of its decision-making, and leadership of the entity must be permanently trained on the quality of accounting information system; as a result I think we can define qualitative characteristics of accounting information system as follows:

Table no. 1: Qualitative characteristics of accounting information system at trade entities

Crt. No.	Characteristics of accounting information system	Explanations
1	Dynamic	Able to be modified or changed; adaptable to new situations
2	Fully understandable	Significantly
3	Organized	Mutual correlation between parts, dominated by feature overview

4	Communicative	Dissemination of information to all users accounts
5	Integrated	All parts of the system are linked to (AIS) as a whole
6	Centralized	The concentration of information in an accounting information system integrated
7	Accessible	Provision of accounting information system
8	Comprehensive	The totality of the properties that constitute the system
9	Restrictive	Confined within boundaries set by the system
10	Punctual	Upon request
11	Functional	Grouping related information unrelated to the accounting department
12	Simple	The ability of a system to meet the need of the user
13	Standardization	Classification and identification of accounting data so that the same meaning to be conveyed at all levels
14	Modularization	Susceptible of expansion or contraction, after needs

Source: made by author after (Lupu, 2000, 32)

However, as we can conclude from those postulated by Lupu, through these qualitative characteristics cannot be achieved in all circumstances the operation of the information system; under these circumstances, the question arises of the mutual adaptations for the purposes of accounting information system adaptation to the conditions of operation or adaptation to the specific conditions of activity of the entity structure and manner of operation of the information system. In reality it is necessary that the two types of adjustment should be carried out at the same time pursuing the objectives; and by specifying the characteristics of the accounting information system of qualitative and their effects on decision-making within the informational activity at trade entities should be laid down points in the diagnostic analysis of the accounting information system.

#### 4. Conclusions

In conclusion, we can say that, at trade entities, for example, important decisions that generate major changes within the entity are taken at higher levels of management, relying doubtless on a significant volume of information logically, selected as needed and coming from all the specific tasks that are performed under a trade entity, however in these circumstances, the investigated field, assessed or diagnosed should include accounting information system in its structuring, at all levels, both at the managerial levels and the implementation of specific activities which are carried out in the framework of a trade entity.

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# Analysis of Correlation Between Gross Domestic Product and Corporate Income Tax in the European Union Countries

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## Abstract

*The purpose of this paper is to analyze Gross Domestic Product and Corporate Income Tax in European Countries for the period 2004-2013. The main objectives aimed at presenting the theoretical point of view of Gross Domestic Product and Corporate Income Tax, analysis of the indicators in the countries of the European Union compared to Romania. The scientific approach is based on information from national and European literature, the documentation of practice carried out by Eurostat. The expected results are to establish a link between Gross Domestic Product and Corporate Income Tax by the F-test significance of the linear correlation coefficient. In formulating the thesis I opted on combining quantitative research qualitative research in order to obtain the expected results. As a result of the research undertaken, research tools pertaining to the two types of methods literature review, statistical study, comparison, descriptive analysis, graphical representation, the case study method, data interpretation.*

**Keywords:** Gross Domestic Product, Corporate Income Tax, Correlation, Evaluation

**JEL Classification:** D12, C58, G21

## Introduction

Work done by an operator is directed towards making a profit. The state, according to its right to set taxes to procure resources, taxing the profit (Țătu et al, 2009, p.109).

Profit maximization as a firm goal has traditionally been met with suspicion in the literature on business ethics, being seen as either immoral or amoral. It is argued herein that this practice should be evaluated according to rule-consequentialist ethics, but supplemented with elements that are more of a deontological ethical character. When seen from this point of view, profit maximization may be seen as ethical. This requires, however, that a number of institutional and other requirements are fulfilled (Koch, 2010, p. 270).

Without financing frictions, profit taxes reduce investment by their effect on the user cost of capital. With financing constraints, investment becomes sensitive to cash-flow (Keuschnigg et al, 2013, p. 808).

## Literature review

The literature in the field encounters a series of definitions of the notions of corporate income tax that you present below.

A tax first definition is: "a form of compulsory charging and unconditional definitively to the State, part of the income and wealth of individuals and / or legal, to meet the needs of society generally understood" (Risti, 2009, p. 27). Another definition of taxes is "taxes are sampling form part of the income or wealth of a natural or legal person that has binding is carried out in non-refundable and no direct consideration and equal amount from the state" (Vintilă et al, 2013, p. 9).

In respect of recorded profit is determined as the difference between revenues (higher) and expenses (less) they carry out economic unit, within a certain period of time - months, quarters, semesters, years - depending on how the is analyzed. Revenue refers to those obtained from sales



of products, execution of works and services and the expenditure relates saddle of achieving revenue (Hada *et al*, 2015, p. 36).

Gheorghe Bistriceanu defines profit as "own economic category of market economy. Gain the advantage obtained by a natural person or legal form of a monetary economic activity, the execution of works or services over its costs. Profit is calculated as the difference between receipts and expenses or the difference between the wholesale price and the cost of the product, work or service + VAT (excise)" (Bistriceanu, 2001, p. 150).

Tax characteristics are: "Tax is a levy cash; Tax is a compulsory levy imposed and collected by the state through its power; Tax is a levy in the State which has financial, as the sums collected are used to support the state's public its financial obligations or its institutions, and its intervention in economic or social purpose; Tax does not involve direct and immediate consideration. In exchange for the tax payer get consideration as indirect use of public services and not a direct consideration, which would mean that the tax would be the price of a service received. Also, there is no equivalence between paid tax to fund public services and their amount received in return. With this feature taxes are different from taxes, where there is a direct counter-serviced report; Has a final tax levies under this head are not repaid any of the contributors cannot claim a direct payment from the state based on taxes paid. This feature distinguishes taxes for public loans interest bearing and repayable; Tax has no destination specified as once collected; they depersonalize their use being made globally for the duties and functions of the state; Sits on income tax, wealth or expenditure, the tax being due only when registering income, possession or transfer of ownership of property or the expenses provided by law; Tax is payable by individuals or legal entities; Tax is paid regular payment frequency being established by law. The role of tax derives from the fact that the creation and perception of the state causes a significant redistribution of GDP. This role is manifested in financial, economic and social manifestations different from country to country and sometimes from one period to another even more important in countries. The most important role of taxes in most countries is financial, the State procure the bulk of financial resources for funding government expenditure to the benefit of taxpayers, while also pursuing neutrality" (Dănulețiu, 2015, p.102).

Mihaela Onofrei shows that profit the following functions: Synthetic indicator for assessing the efficiency of capital and the conduct of business; Source of cash flow; Leverage the incentives of shareholders and members, to individual owners and employees; Source covering the leveraged; Source of supply to the national public budget; Means of economic management and financial control (Onofrei, 2004, p. 262-263).

### **Corporate Income Taxes: taxpayers, tax rates**

In Romania tax is regulated by Law no. 227/2015 regarding the Fiscal Code, as amended and supplemented, Title II - Income taxes.

According to the provisions of the Tax Code in effect, be required to pay corporate tax payers following categories:

- a) Romanian legal persons, such as: national companies, national societies, autonomous administrations, agricultural cooperatives, cooperative societies, financial institutions and credit institutions, foundations, associations, organizations and any other entity that has the legal status of legal entity incorporated under Romanian law;
- b) foreign legal persons carrying out activities through a permanent/multiple permanent establishments in Romania;
- c) foreign legal persons who exercise the place of effective management in Romania;
- d) foreign legal persons deriving income from the transfer of real estate located in Romania or any rights on these properties, including rental or lease of goods real property located in Romania, from natural resources located in Romania, and the sale-assignment of shares held in a Romanian legal entity;
- e) legal entities with headquarters in Romania, according to established EU law.

In addition to the categories listed above contribute to paying income tax, there are a number of Romanian legal persons exempted so: the State Treasury; public institution, with the exception of the economic activities; Romanian Academy and foundations set up by the Romanian Academy as

sole founding, except for those economic activities; The National Bank of Romania; Deposit Guarantee Fund in the banking system; Investor Compensation Fund; Private pension guarantee fund; Romanian legal entity paying enterprises' income tax etc.

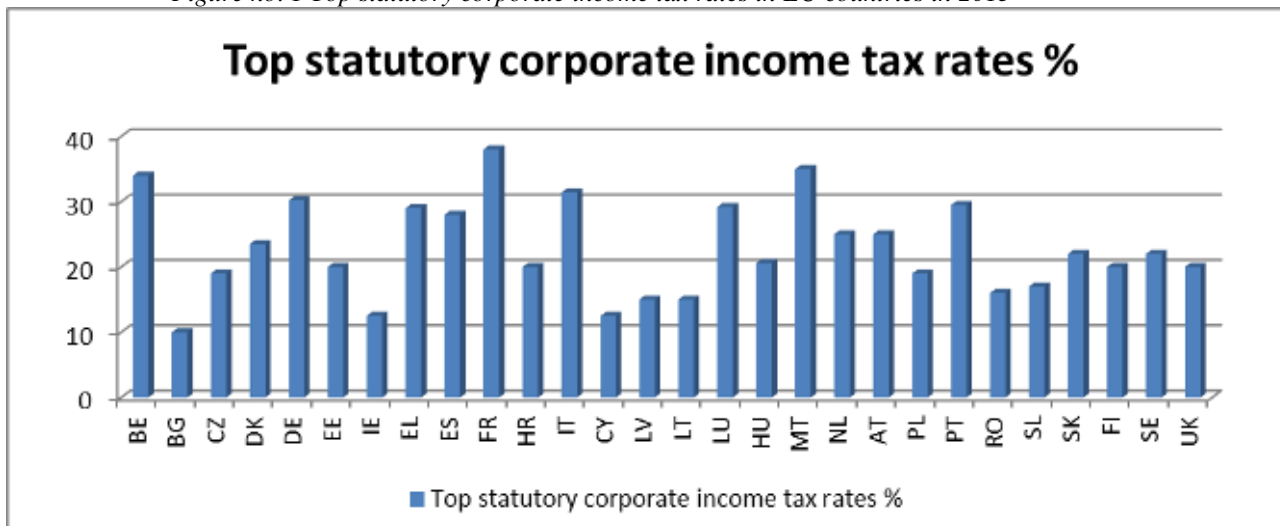
The corporate income tax rate in Romania is 16%. In addition to this flat, we have 5% share applicable taxpayers performing night bars, nightclubs, discos and casinos. Taxpayers who engage in such activities and where the corporation tax payable for those activities is less than 5% of those revenues are obliged to pay tax at the rate of 5% of these revenues recorded.

Tax result is calculated as the difference between revenues and expenses recorded in accordance with applicable accounting rules, net of non-taxable income and tax deductions and deductible expenses plus. The positive tax result taxable profit and the result is negative fiscal tax loss. Tax result is calculated quarterly annual, cumulative from the beginning of the fiscal year. In determining the fiscal result, taxpayers are required to record in the register of registered taxable income tax in a fiscal year and expenses incurred for business purposes, the same fiscal year, including those covered by laws in force.

In the category of *taxable income* includes the dividends received from a Romanian legal entity; dividends received from a foreign entity paying income tax or similar tax profit corporation, located in a third country with which Romania has concluded an agreement for avoidance of double taxation; value of shares amounts of new or increasing the nominal value of the existing equity shares; income from cancellation of recovery, including re-invoicing of expenses for which no deduction was granted, income from the reduction or cancellation of provisions for which no deduction was granted, the income from the reimbursement or cancellation of interest and/or penalties for which no deduction was granted, and income representing cancellation of the reserve recorded as a result of participation in the capital of other legal nature or due to the capital increase legal entity to which hold equity securities; Deferred income tax revenues; revenues stipulated in the agreements and memoranda; compensation received based European Court of Human Rights and others. Among *non-deductible expenses* include corporate tax and expenditure of the taxpayer's own tax due, including those representing differences from previous years; interest/delay penalties, fines, forfeitures and penalties; expenditure on assets such as stocks or depreciable fixed assets discovered as missing or damaged attributable; expenditures made in favor of the shareholders or associates; expenditure on insurance premiums; expenses of sponsorship and/or patronage and expenditure on private exchanges; expenses recorded in the accounts, which are based on a document issued by a taxpayer declared inactive etc. In addition to non-deductible expenses in their entirety, the Tax Code of Romania presents expenses *limited deductibility*, such as entertainment expenses, social expenses, expenses representing meal vouchers and holiday vouchers provided by employers, perishability, losses handling/storage provisioning costs/impairment adjustments and reserves, interest costs and foreign exchange differences, depreciation etc.

In the European Union member countries the Corporate Income Tax Rates recorded different values, as described in the figure below:

Figure no. 1 Top statutory corporate income tax rates in EU countries in 2015



Source: own processing after Eurostat data

From the above chart we can see that the highest level of corporate income tax rates of 38% is registered in France, followed by 35% in Malta, 34% in Belgium. Lowest corporate income tax rates recorded in Cyprus 12.5% and 10% in Bulgaria.

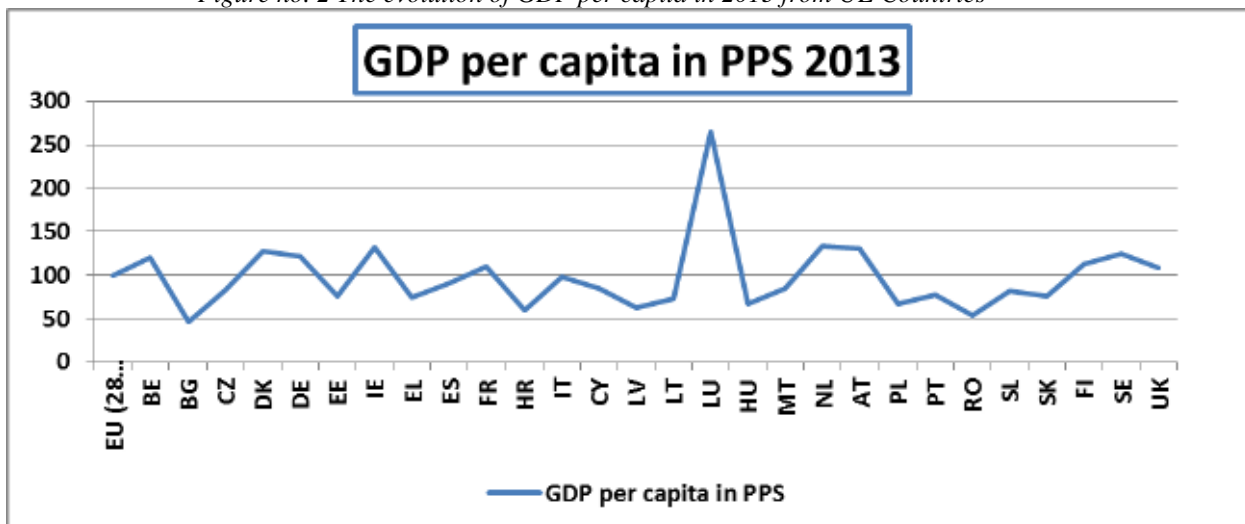
In Romania compared to EU countries the corporate income tax rate remains at a high level (16%) hovering over EU share (28) of 22.8 %.

### Analysis of Gross Domestic Product in the European Union

The GDP represents the synthetic expression of the results of the economic activity produced inside the economic environment in a certain time span, irrespective of the contribution of domestic or foreign participants. Gross Domestic Product shows the economic activity in a country (Iuga et al, 2013, p.72).

Related to this indicator, from the figure no. 2, the following can be noticed:

Figure no. 2 The evolution of GDP per capita in 2013 from UE Countries



Source: own processing after Eurostat data

The highest values of the GDP per capita in the year 2013 are in Luxembourg (265%), Netherlands (133%) and Ireland (132%) and the lowest in Romania (54%) and Bulgaria (46%). We specify that the value of GDP per capita for each country in the European Union, is shown compared to the EU-28 countries (100%).

**The analysis of the correlation between GDP per capita and rate of corporate income tax as % of GDP, conducted with the help of the f-test of significance of the linear correlation coefficient**

We wish to establish a correlation between GDP per capita and Rate of Corporate Income Tax as % of GDP in European Union countries in the period 2004-2013 with the help of the F-test of significance of the linear correlation coefficient. In our case: X – GDP per capita, and Y – Rate of Corporate Income Tax as % of GDP is the influenced factor. In order to estimate the coefficients of the simple linear econometric model we must determine the defining parameters:

Table no. 1 Correlation matrix

X \ Y	50	150	250	<b>TOTAL</b>
12,5	0	1	0	<b>0</b>
7,5	5	4	8	<b>17</b>
2,5	146	115	1	<b>262</b>
<b>TOTAL</b>	151	119	9	<b>279</b>

Source: processing of data collected from Eurostat

Based on the above formula and on the correlation matrix we obtained the following values

M(X)	M(Y)	M(X*Y)	cov(X, Y)	$\sigma_x^2$
99,10	2,8	298,83	21,35	3144,36

The stages of the F-test:

1. Formulating the hypothesis:  
 $H_0: R_{01} = 0 \Rightarrow$  the linear model is not adequate  
 $H_1: R_{01} \neq 0 \Rightarrow$  the linear model is adequate
2. Based on the data collected on the sample volume of 279 with respect to the variables X and Y, the linear correlation coefficient estimator is obtained  $\hat{R}_{01}$ .

Where:

$$\hat{R}_{01} = \sqrt{1 - \frac{\det M}{m_{00}m_{11}}} = \frac{\text{cov}(x, y)}{\sigma_x \sigma_y} \quad M = \begin{pmatrix} m_{00} & m_{01} \\ m_{10} & m_{11} \end{pmatrix} \quad \sigma_x^2 = \frac{\sum_{i=1}^R (x_i - \bar{x})^2 N_i}{\sum_{i=1}^R N_i} \equiv m_{00}$$

$\sigma_x^2$	$\sigma_y^2$	$\widehat{\det M}$	$\hat{R}_{01}$
3144,36	1,43	4218,95	0,24

$$\sigma_y^2 = \frac{\sum_{i=1}^R (y_i - \bar{y})^2 N_i}{\sum_{i=1}^R N_i} = m_{00}$$

$$\widehat{\det M} = m_{00} * m_{11} - m_{10} * m_{01} \quad m_{10} = m_{01} = \text{cov}(X, Y) = M(X \cdot Y) - M(X) \cdot M(Y) \equiv 21,35$$

Since we will say that at a sample level, the linear model is adequate to the data.

3. The statistic F-test is based on a random variable,

$F = \frac{R_{01}^2 \cdot (n - 2)}{(1 - R_{01}^2)}$ , which follows Fisher’s law of probability, with  $\nu_1 = 1$  and  $\nu_2 = n - 2 = 279 - 2 = 277$ , degrees of freedom.

Based on a risk or a materiality value,  $\alpha = 5\%$ , we determine from Fisher’s table, corresponding to  $\nu_1 = 1$  and  $\nu_2 = 279 - 2 = 277$  degrees of freedom, a tabular value  $F_{\alpha,1,n-2}$  = the hypothesis will be accepted at [0; 3.84].

5. Based on the data obtained on the sample, we calculate a particular value of the variable:

$$F_{calc} = \frac{\hat{R}_{01}^2 \cdot (n - 2)}{(1 - \hat{R}_{01}^2)} = 17$$

Because  $F_{calc}$  doesn’t belong to the distribution [0; 3.84], we reject the null hypothesis and accept the alternative hypothesis, therefore,  $R_{01} \neq 0$ , so we can conclude that *F test explains quite well the correlation between GDP per capita and Rate of Corporate Income Tax as % of GDP* for a materiality value of 5%.

## Conclusions

From the analysis of GDP per capita in the countries of the European Union in 2013, we see that only industrialized countries have a value above the EU limit (28) of this indicator, namely: Luxembourg, Denmark, Germany, Ireland, Austria and Netherlands. The level of this indicator in Romania are below the EU (28), namely 53% to 100%.

Regarding the corporate income tax rates we notice that the highest values are in: France, Malta, Belgium. The value in Romania at the corporate income tax rates is 16% over the value recorded by the EU (28) of 22.8%.

Calculating the GDP per capita and Corporate Income Tax as % of GDP showed that there is a correlation between this two indicators but not very strong. GDP may be influence by another factors such as: investments, legislation, purchasing power of population, infrastructure etc.

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## Tax Havens in the Offshore World

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### Abstract

*The research on tax havens started because of the “Panama Papers” scandal. Tax havens exist because of taxation. Taxation is vital for any society because it is a revenue source for government. Through taxation governments get money to fulfil their role in society. It plays a major role in investment decisions and can be also an innoportunity for taxpayers. Tax havens are tax free areas that have the status of states and function legally. Their main business is to attract money by creating taxpayers friendly environments and by total secrecy. Panama is the biggest US-influenced tax haven. Tax evasion through tax havens is illegal and is the evading of declaring and paying taxes. Tax avoidance through tax havens is the legally avoiding of declaring and paying taxes. Tax havens are not illegal but are immoral because vast amounts of money drain from the states around the world to them.*

**Key words:** tax havens, taxation, tax evasion, tax avoidance, Panama

**J.E.L. classification:** F65, H25, H26

### 1. Introduction

This article will clarify the concepts of tax haven, given the recent ‘Panama Papers’ scandal, exposing a widespread system of global tax evasion. According to this scandal, the state of Panama is considered a tax haven part of the offshore world. A part of the media and journalists presented that offshore jurisdictions are illegal and this needs clarification. In order to understand the concepts, taxation has to be defined and clarified first. Because of taxation, tax havens do exist and make the offshore world.

In any society, the need of the state for taxation is vital, nothing else replacing this source of revenue for funding and support (Constantin, 2014a).

By Bacanu (2016) “through taxation are determined, verified and collected the revenues of the general consolidated budget which finance the public expenses”. Taxation objective aims to collect the money owed by the taxpayers to the state budget. Analyzing this objective, can be observed two parties involved in the fiscal and legal relations: the State and the taxpayers (Bacanu, 2016). So, the state through government collects money from taxpayers.

Taxpayers’ welfares are taxed to generate revenues for government to provide essential services for society, so taxes are the lifeblood of governments. Through taxation governments get money for health care, social care, environment protection, education, research, infrastructure, investments all these necessary for development. Economically, some sectors of the economy are developed with tax revenues from more developed sectors.

“On the other hand, if one company operates on a market, it takes part to the society and if it takes part to the society it must take part to the realization of the state incomes. All the persons, juridical or natural persons, who obtain an income, or are owners of a wealth, must pay a certain tax. ...

Taxation objective is also to determine the way in which the taxes are computed, the size of the taxes, but also how to declare and collect them. The taxes are the state incomes, which are collected for the good functioning of the society” (Bacanu, 2015).

Taxation plays a major role in investment decisions since it represents a business cost, whatever

its type, size or geographical area. When making investment decisions, the business environment is judged also according to the level of taxation and to the fiscal system.

Taxation can be also an insupportable burden for taxpayers, however honest they prove to be. Taxes are universally hated, because taxpayers must share their wealth with the government. Moreover, taxation becomes the cause of public dissatisfaction when the government wastes the money it administers, pushing the taxpayer to dodge taxes (Constantin, 2014a).

The ability or inability to collect taxes points to the strength of the tax system of a country, saying a great deal about its stability.

If the fiscal system is characterized by a poor collection of taxes, with inefficient tax authorities, excessive bureaucracy, lack of transparency, corruption and very hard tax legislation then some taxpayers (especially rich persons or entities) to move their activities or capitals, abroad to more tax friendly environments. This can happen also because of the high tax pressure, the official scope being to legally optimize their taxes. These taxpayers succeed in avoiding taxes (legally or not legally), and more frequently, in transferring their money to the more tax friendly environments called tax havens.

## **2. Tax havens and the offshore world**

Tax havens are tax free areas, which are genuine territorial enclaves that benefit by customs extraterritoriality and are not subject to states legislations, having a legal status of genuine state entities. Most of tax havens are sovereign states. By themselves, tax havens do not have anything illegal, because all procedures, exemptions or confidentialities are provided in the local law (Virjan, 2011).

The scope of tax havens is to attract rich people, rich entities (companies, trusts, foundations) and investment of capital to ensure the economic and social balance. Their main goal is to attract money from abroad so they make the local tax legislation accordingly. Tax exemptions are used widely by tax havens in order to achieve this goal (Constantin, 2014b).

The advantages of doing business in a tax haven are given, on the one hand, by zero or very low taxation, and on the other hand, by the protection under the law of financial or commercial operations performed by individuals or legal entities. These financial centres play a destructive role for the states the money comes from because they serve as subterfuge in those states tax systems. Capital export, associated with tax evasion, deprive especially poor and developing countries (and not only) of the sources necessary for sustainable development (Constantin, 2014b). So tax havens attract money by helping taxpayers escape taxes (legally or illegally) from countries they are tax residents; they help rich taxpayers stash their money.

In order to ensure a privileged tax system, these entities permanently adapt their friendly tax legislation in accordance with international evolutions and international environment.

According to Shaxson (2012), tax havens don't just offer an escape from tax; they also provide secrecy, an escape from financial regulation, and are indifferent to the laws and rules of other jurisdictions, the countries where most of the world lives. A tax haven is a place that seeks to attract business by offering politically stable facilities to help tax payers (people or entities) from other countries get around the rules, laws and regulations. The whole point is to offer escape routes from the obligations and the responsibilities that come with living in an obtaining benefits from society – tax, responsible financial regulation, criminal laws, inheritance rules and so on (Shaxson, 2012, p.8).

The offshore world is made of tax havens and is all around us. More than half of the international commerce is made, at least on paper, through tax havens. Over half of all banking assets and a third of foreign direct investment by multinational corporations come from offshore jurisdictions.

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

The offshore world is divided roughly into three main groups. First are the European tax havens - Andorra, Madeira, Switzerland, Liechtenstein, Monaco, The Netherlands, Cyprus, Dutch Antilles,

San Marino, Aruba. Second is a zone of influence focused on the United States – island of Manhattan, Delaware, Nevada, Wyoming, US Virgin Islands, Liberia, Marshall Islands, Chile, Costa Rica, Guatemala, Uruguay, Panama, Philippines. Third and the most important group is made of tax havens located in the British former colonies still under the British sphere of influence and centered on the City of London - Anguilla, Alderney, Antigua and Barbuda, Bahamas, Bahrain, Belize, Bermuda, British Virgin Islands, Dubai, Dominica, Cayman Islands, Gibraltar, Guernsey, Grenada, Ireland, Isle of Man, Jersey, Malta, Hong Kong, Singapore, Turks & Caicos Islands, Malaysia, Maldives, Mauritius, Nauru, Niue, Seychelles, St. Vincent and the Grenadines, St. Kitts & Nevis, St. Lucia, Tonga, Vanuatu (Shaxson, 2012, p.8-10 and Constantin, 2014b).

It can be seen that most of the tax havens are located in the British former empire. The money that goes in these tax havens is afterwards managed by (and not only by) London’s financial institutions, the main beneficiaries of this business of tax havens being both the underworld and the high class of the world’s political and economic elite. Hence, London is the financial centre in the centre of a spider web, which connects it to many of the tax havens, being considered the greatest tax haven from the world (Constantin, 2014b). Tax havens from the former British Empire located nearby United States of America tend to be slowly but surely under its sphere of influence.

Panama is the biggest tax haven within the United States sphere of influence. Republic of Panama is within United States sphere of influence from the very beginning and has a free trade agreement with it. It is also of a great interest for United States because of the Panama Canal, which the Americans built between 1904 and 1914.

Panama began registering foreign ships in 1919 to help Standard Oil escape American taxes and regulations. Offshore finance followed in 1927, when Wall Street interests helped Panama introduce lax company incorporation laws, which let anyone start tax free, anonymous corporations, trusts and foundations, with few questions asked (Smith, 2016). Panama started the real business of “offshoring” in the 1970s during the OPEC oil crisis when the shipping industry was hit hard. This meant that Panama needed to attract foreign investors and adopted legislation specific for tax haven. This involves exempting foreign investors and their international business companies from taxes, corporate shareholders are not required to be publicly registered, enforcing strict banking secrecy laws, and offering competitive incorporation laws.

Republic of Panama has no tax treaties with other countries so they don’t share tax and financial information about its investors with other nations, further protecting the financial and fiscal privacy. The secrecy laws don’t apply only if a court order in conjunction with a criminal investigation does exist (Maverick, 2016).

The country is filled with lawyers, tax advisors, accountants, bankers, company formation agents and companies specialized in the offshore industry, that make Republic of Panama very prosperous. All these are happening under the watchful eye of the United States of America. This strange and little-known US centered pattern, echoing the somewhat colonial role of the secrecy jurisdictions in the British zone, is a pointer to the fact that offshore finance has quietly been at the heart of schemes to project US power around the globe for years (Shaxson, 2012, p.9).

### **3. Tax evasion through tax havens**

Tax evasion is the illegally evading of declaring and paying taxes to the state budget and it is committed through violation of the tax law. Tax evasion is escaping taxes by illegal means. So, tax evasion is illegal and it is pecuniary and criminally sanctioned (Virjan, 2011).

One form of tax evasion consists in fictitious economic operations through offshore companies from tax havens. Using this form of tax evasion, profits are transferred to tax havens by doing fictive businesses with offshore companies from tax havens. By artificial shifting of profits from a high-tax jurisdiction to a low-tax jurisdiction, taxes of a company will be reduced, without affecting the business.

Offshore companies provide services that are not real to companies from different countries of the world. These services are of consultancy, management, marketing, and they cannot be quantified because they are fictitious. Such services are not really provided, only a circuit of documents is created and such documents do not reflect real business. These fictitious services are regulated based on civil contracts concluded between parties, which contain a series of advantages



in order to favour the transfer of profits to a certain tax haven. Many of these contracts stipulate the confidential character of the business precisely because the business is without a real base. In order for the services to look more real, written reports and estimates of works are made also. The fictitious services are used as instrument of transfer of an important part of the taxable profit to tax havens. By accounting these services as deductible expenses, less profit tax is declared and paid to states budgets. More expenses means less dividends and less dividend tax to pay (Constantin, 2014b).

The offshore business is also used in exports. Indigenous goods are exported at modest prices to an offshore company, which carries a price adjustment, in the meaning of raising it up to the real value of the export, and, subsequently, the said product reaches the final destination. The taxable profit is visibly diminished with the hidden price of the goods that are to be “exported” to other offshore companies, and the effect is represented by the diminishing of the corporate tax due in the country of origin. Goods may be also exported to offshore companies and then imported back in the same country, illegally requiring the VAT reimbursement in the Customs (especially in the EU countries where VAT does exist).

#### **4. Tax avoidance through tax havens**

Tax avoidance must be distinguished from tax evasion. Taxpayers, who use offshore jurisdictions but respect the local legislation, cannot be sanctioned by authorities.

Tax avoidance is the legally avoiding of declaring and paying taxes to the state budget. It is the use of legal methods in order to declare and pay the least amounts of taxes possible, to the state budget. In other words tax avoidance is the lawful minimization of taxes, is escaping taxes by legal means using legislative gaps in taxpayers favor (Suresh, 2011). This practice is legal and differs from tax evasion, which is illegal so tax payers are not considered tax dodgers.

Tax avoidance is possible only when the law is incomplete or has inaccuracies. Taxpayers are trying to put themselves in a favorable position in order to benefit of tax regulations, as much as possible. It is natural and normal for taxpayers to leave from high-tax jurisdiction to low-tax jurisdiction, as long as they don't break their national laws.

A tax haven is an instrument, of international tax avoidance, used by the taxpayers who are looking (by legal means) for more advantageous tax treatments. It is the right of every taxpayer to identify the perfect tax haven which maximizes the advantages and minimizes the risks in order to legally optimize their taxes. Persons or entities will choose a tax haven after a careful juridical, financial and fiscal analysis. A person may establish the center of vital interests in a certain tax haven and get tax residency.

If anyone chooses to invest or to start a business in a certain tax haven because taxes are lower than the country of origin, it is legal and we talk about tax avoidance.

Persons or entities cannot be accused of tax evasion for the simple fact that they carry out their activities in offshore jurisdictions called tax havens. In order to be considered tax dodgers, tax payers should break the tax law in their countries but in these cases this doesn't happen.

Thus offshore business is a device to avoid taxes.

#### **5. Conclusions**

The main conclusion is that tax havens are not illegal but are immoral.

Directing the world's finances towards offshore centres from tax havens can be compared with blood loss. Blood means life and sustains life; money means welfare, sustains the state and the economy of the state. The flow of blood in our veins is the same with the flow of money in the economy. The flow of blood in our veins means that we are healthy and alive but if we lose blood we become sick and we could die. If a state loses too much money could get sick and go into recession.

Part of the money in the economy is visible to the authorities, the other part, which is quite substantial “drains” towards the tax havens. In this way, tax havens have become genuine “blood banks” of huge amounts of money “drained” through methods more or less fraudulent of avoiding taxation. Tax revenues have been drained out to tax havens.

Because of the drainage of money vast amounts financial resources are kept offshore and go untaxed in the world countries. States need to stop and prevent this drainage of money to tax havens. This requires a simple, transparent, diminished and stable fiscal system which allows companies and investors to implement long-term strategies and to cater for a coherent management of daily business activities. This rule becomes more stringent in difficult periods, whenever the financial constraints affect the normal run of business. In such a situation, the state economic machinery should intervene to ease fiscal burden and to help the business environment get out of crisis.

A successful economic environment can only be maintained through a close relationship between the legislator and the tax payers. There should be a permanent improvement of the fiscal system, since it keeps the balance of benefits both for tax payers and the state, and for the economy as a whole, implicitly.

Yet, Britain and United States are protectors of the offshore world and the offshore system continue to process vast amounts of money.

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## Conceptual Approaches in Financial Instruments Sphere

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### Abstract

*The article examines the conceptual approaches in the sphere of financial instruments according to international regulations. The article analyzes the conceptual boundaries of financial instruments, their classification into financial asset, financial liability and equity instrument. An explicit illustration of how to recognize the financial asset and financial liability provides financial statement users more opportunities on how to understand the concept of financial instrument. The conclusion is that with the complex confrontation of financial instruments, a more accurate and clear accounting is needed in order to exclude the mystery witch surrounds them.*

**Key words:** financial instruments, financial asset, financial liability, equity instrument.

**J.E.L. classification:** G23

### Introduction

Each page readed in addition, every idea, every analysis and a lot of questions that continually arise in attempt to study one analyzed aspect, remind us the words of Thomas Carlyle , who said: «go to where the eye can see, and when you get there you'll be able to see further."

Appears a belief that this is a common feeling for any researcher who wants to carry out a study, which could be small but thoroughly developed, but it is impossible not to highlight the variety of issues raised by a subject such as accounting for financial instruments. To get to the essence of the accounting there is a need for conceptual delimitation of what will be examined, appropriate induction of financial instruments in their environment, namely capital markets and then we can talk about accounting treatments (Epstein B.J., Nach R., Bragg S.M., 2008, p.86).

When financial statements are mentioned, the rules play an important role in ensuring clarity and comparability of the information provided, yet the reality is that some rules within current standards arose precisely in the absence of principles or being guided by some inadequate principles. Identifying principles of accounting for financial instruments is not at all an easy task, the economic essence is often difficult to extract from ideological sails that developed financial experts in finance. Moreover, there are opinions that when financial instruments are mentioned there are part of principles-based system, even in the case of referential international accounting.

As a result appears a difficult task that requires the widest possible disclosure of the issues related to financial instruments, particularly derivatives, in order to ensure their right to a fair analysis.

Unlike disciplines that are subject of natural laws, accounting is a tool of human behavior, being constructed and used by individuals for specific purposes. It is also extremely important to recognize that accounting theory is closely related to the accounting practice; unrealistic theories have no life.

The main purpose of accounting theory is to explain the current accounting practices and to provide the necessary basis for further development of these practices. Accounting Theories presents a concept moderm that should be compared with other areas such as physics and mathematics; accountancy developing through a set of tools by recording the activity or transaction.

## **Conceptual delimitations of financial instruments**

Addressing key elements in terms of financial instruments accounting, identify the manner in which elements belong to different theories and research that can be merged into the main categories of studies conducted on the capital markets. Purpose of these correlations, is to define the main lines of analysis and identification of a general theory corresponding to the complex nature of the topic addressed, requiring a study case in the same generalist spirit.

It would be better to address primarily conceptual boundaries of financial instruments serving purpose of accounting, detailing the issue of financial instruments classification in the category of financial assets, financial liabilities and equity instruments respectively. It welcomes the illustration of the complex diversity of financial instruments to be classified in the categories mentioned (KPMG, 2008, p.167).

Principles that guide the entities now in their classification and delimitation from the perspective of the issuer, are set out in International Accounting Standard 32 Financial Instruments: presentation. According to IAS 32, the instrument represents a contract that generates a financial assets for one entity and a financial liability or an equity instrument for another entity (IASB, 2009, p. 1418).

There should be an achievement from this point of distinction between so-called real assets (non-financial) and financial assets, first making reference to those assets that have intrinsic value, because of their utility (tangible and intangible), while in the end it represents rights on real assets. By default, financial liabilities are considered counterparty of financial assets. Thus expanding the definition of financial instrument, are included in this category and those buy or sell contracts of a non-financial item that can be settled net in cash or another financial instrument, by exchanging financial instruments, except for contracts initiated and maintained with the purpose of receiving or delivery of a non-financial item in accordance with the requirements of purchase, sale or usage expected of the entity (IASB, 2009, p. 1417). Many commodity contracts are standardized and traded on organized markets as derivative financial instruments, which can be easily sold or bought for cash, because of the listing for trade on the stock exchange and thus changing hands many times. However, the parties buying and selling the contract trade in reality with basic commodities.

The ability to buy or sell a commodity contract for cash, the ease of conducting these transactions and the possibility of negotiating a settlement with cash obligation to deliver the goods or the right to receive it, does not alter the fundamental character of the contract in a manner that would create a financial instrument. There is however the possibility that some contracts to buy or sell non-financial items to materialize in financial instruments, when they can be settled net or by exchanging financial instruments, or the non-financial item is readily convertible to cash. There is also possibility that some contracts refer to the goods without involving settlement by physical delivery or receipt of goods, specifying settlement through cash payments that are determined according to a formula in the contract, rather than through payment of fixed amounts.

A clear understanding of the definitions of IAS 32 and IAS 39 is necessary not only to achieve an adequate conceptual delimitations of financial instruments, but also their practical applicability as practitioners in most cases make reference to definitions. The commitment of these causes clear economic consequences, with no or little possibility to be avoided, usually due to the execution power of the undertaking. Contrary to the contract that tend to appeal to its connotations as a legal instrument must consider the issue of nature and not the legal aspect, to determine whether there is a contract or contractual obligation.

## **Classification of Financial Instruments**

Financial instruments include both: primary instruments, such as receivables, payables and equity instruments, and derivatives such as futures, forwards and financial options.

International Accounting Standard 39 Financial Instruments: Recognition and Measurement defines them as non-derivative financial instruments and derivatives (Duțescu A., 2004, p.43). IAS 39 also stipulates in classifying derivative financial instruments as it needs to meet all of the following three characteristics:

1. Value, that changes in response to certain interest rate, financial instrument price, commodity price, foreign exchange rates, price indices, credit rating or credit index, or other variable, with the condition that, in case of nonfinancial variable, should not be specific to a party of the contract;

2. Does not require an initial net investment or require an initial net investment that is smaller than those required for other types of contracts that are expected to have a similar response to changes in market factors, and

3. it is settled at a future date (Epstein B.J., Nach R., Bragg S.M., 2008, p.239).

The users of the information provided of financial statements consider extremely important to establish the distinction between financial liabilities and equity instruments. The most important reasons being concerns about the solvency of the entity, diluting the interest of owner equity of the entity's obligations may require the use of cash or other assets, priority of the rights over the assets of the entity or the identification of those instruments which generate owner interest in equity an entity's own. In this context, I mention the difficult task present for professional bodies to develop as soon as possible a model that will allow simple and clear demarcation of financial liabilities and equity instruments, being applicable also for most complex financial instruments.

### **Specific approach for the term of financial asset**

Given the definition content through financial asset can mean any asset that is:

1. Cash

2. An equity instrument of another entity

3. A contractual right

a) to receive cash or another financial asset from another entity, or

b) to exchange financial assets or financial liabilities with another entity under potentially favorable to the entity conditions, or

4. A contract that will or may be settled in own equity instruments of the entity (IASB, 2009, p.1418). It envisages a non-derivative that require or may require the entity receiving a variable number of its own equity instruments or a derivative that will or may be settled other than by a fixed amount of cash or another financial asset for a fixed number of equity instruments of the entity. It therefore argues that an entity's own equity instruments do not include instruments that are themselves contracts for receiving or delivering its own equity instruments of the entity (IASB, 2009, p.1419).

Examples of financial assets may be:

- cash (currency)

- effects receivable,

- accounts receivable,

- loans receivable,

- bonds receivable etc.

Accrued expenses are not financial assets by virtue of the fact that definition is not met, the future economic benefits associated with reference to the receipt of goods or services rather than the right to receive cash or another financial asset (Аверчев И.В.,2004, p.116).

### **Financial debt: definition and general notions**

Definition of financial debt refers to:

1. Contractual obligation to give cash or another financial asset to another entity or to exchange financial assets or other financial liabilities with another entity under conditions that are potentially unfavorable to the entity or

2. A contract that will or may be settled in own equity instruments of the entity.

The contract that may be settled in own equity instruments constitute a financial instrument that imposes or may impose entity delivery of a variable number of its own equity instruments or that of a derivative that will or may be settled other than by the exchange of fixed amount of cash or another financial asset for a fixed number of equity instruments of the entity.

In category of financial liabilities representing a contractual obligation, are incorporated trade payables, notes payable, loans payable, bonds payable etc (Epstein B.J., Nach R., Bragg S.M., 2008, p.240).

Deferred revenue is not a financial liability because the outflow of economic benefits associated is the delivery of goods and services rather than a contractual obligation to deliver cash or another financial asset. Debts that are not contractual do not represent any financial liability even if involve cash payments, such as income tax and other constructive obligations that are not based on a contract, are not considered financial liabilities.

### **Equity instrument: demarcation and recognition**

Equity instrument is any contract that certifies the presence of any interest in the assets of an entity after deducting all of its liabilities (IASB, 2009, p.1419).

An extremely sensitive issue is the demarcation of financial liabilities for equities. Analysts and accountants argue that many forms of equity instruments and financial liabilities differ essentially in a relatively small extent (Fabozzi Frank J., Franco Modigliani, 2009, p.56). As a result, they were drawn from the IASB principles that allows the issuer delineation between financial instruments as a financial liability or equity instrument, the focus is on the nature of the commitment rather than its form.

In conclusion, a financial instrument is an equity instrument only if it simultaneously meets two conditions clearly stated:

1) The instrument includes a contractual obligation to give cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under potentially unfavorable to the issuer;

2) The instrument will or may be settled in equity instruments of the issuer, in which case, should not include contractual obligation for the issuer to give a variable number of its own equity instruments or will be settled by the issuer which changes a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These principles require that own equity instruments of the issuer to not include instruments that are themselves contracts reception or future delivery of its own equity instruments of the issuer (which found its place among the financial assets and respective indebtedness).

### **Conclusions**

Specifics of scientific endeavor assumed is the need for demarcation, definitions and classifications in terms of accounting referentially. Thus, in the late 80s FASB and SEC identified 14 distinct categories of derivatives, which they considered to be available at that time (Huian M.C., 2008, p. 93).

Since then, however, the world of derivatives has undergone dramatic changes, not only in terms of increasing availability and trade, and the products which were once considered "exotic" gradually became common, while the novelty in terms of the structure of created products become a major competitive advantage. By far, the most beneficial trend recorded during the '90s and beyond, is the increasing importance bankers and investors give to the risk, both regulatory bodies and well-managed entities focusing on means of control of actual or potential risks exposures, and creating new components of legislation and regulations (Bryce R., 2002, p.26).

From the point of view of the explosion recorded in derivative financial instruments, it also caused some changes, making these tools not to occur only in the form of off-balance sheet assets and liabilities with reduced significance. They represent today distinct parts related to core activities reflected in the balance sheet entities, not only for banks and other financial institutions, but for a variety of other entities.

Currently, bankers, investors, regulators and financial analysts face a growing complexity of interrelations and correlations because virtually all financial instruments embedded moderns. Besides these aspects we should take into account the accounting perspective, in many cases and national regulations, disclosure of financial instruments is widespread in the notes of the financial statements, and is fully understood by a relatively small number of people. Most investors and

financial professionals are surrounded by mystery related derivatives, and often frustrated by some of their effects on the exposure it generates to the entity, and the implications on the balance sheet.

Accounting for derivative financial instruments has always created a series of debates and heated arguments between practitioners, especially on the valuation bases of derivatives used in risk covering, issues related to information presentation and gains and losses.

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## Considerations Regarding the Contents of Internal Control

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### Abstract

*The wrongful and limited understanding of the notion of control can have a negative impact on the individual as an integrating part of a democratic society, who in view of his past experiences may be reluctant to control.*

*In time there have been many attempts to define this notion and integrate it in current activities, whether referring to the control exerted at the level of one country or the control in an entity be it public or private.*

*Throughout the present endeavour we shall focus on debating the contents of the internal control in view of the necessity of implementing it in the activities developed within the entity as well as in other external aspects that come to influence it.*

**Keywords:** internal control, entity, risk management  
JEL codes: M42, G38

### Introduction

The interest in control has not developed recently but continues to represent the object of current preoccupations in relation to the benefits and the added value that it can bring to an entity, being a fundamental component of a good corporate governance.

Controls have existed from all times. In Hellenistic Egypt there was a double administration, in the sense that a branch of the bureaucrats was responsible for collecting taxes and another with the monitoring of the first branch. In the Republic of China, control Yuan, one of the five branches of the government was an investigation agency that monitored the other branches of the government. (Wikipedia, the free encyclopaedia).

While maintaining this basis, the notions regarding control have continuously evolved, leading to an increase of classifications and conceptual nuances brought to one's attention. We shall not focus on the classifications (which are very likely to be the object of another thesis), but we shall enunciate certain ideas, starting from the division of control in internal and external, regarding the definitions and ambiguities, contents and limitations of internal control.

### 1. The definitions of the notion of internal control

Throughout history, the phrase „internal control” has been strictly limited to the financial-accounting activity (Steven, J.R., 1998, p.74) from within the entity, being considered that the object of exerting internal control was that of avoiding any fraud to be committed and any errors to



be made. In 1916 an idea appeared according to which internal control was an attribute of the management, being one of its functions.

Between 1948-1949, the American Institute of Certified Public Accountants (AICPA), considered internal control as a system of the organization containing the plans of the organization and all the methods and measures taken to secure assets, control the accuracy and reliability of accounting information, promote operational efficiency and encourage adherence to the established management policies.

In 1977, the Order of Accounting Experts in France defined internal control as being represented by all the measures contributing to the holding of control over a company.

Treadway, an American Senator set the basis of a research regarding internal control and its role in organizations, the Treadway Commission thus being established. As a result of the recommendations of this commission the Committee for Sponsoring Activities was established and later issued a thesis regarding internal control called „Internal control-general framework”, who set the basis of the COSO internal control model. Within this committee, in 1992, the internal control was generally defined as being a process accomplished by the Board of directors, the managers and other employees of an organization with the purpose of providing reasonable insurance with regards to meeting the following objectives: the efficiency and effectiveness of operations, the credibility of financial reporting and the conformity with applicable laws and regulations (Landsittel, 2013, p. 3).

In 1995, The Canadian Institute of Certified Accountants (CICA), who set the basis of the COCO control model, defined internal control as being represented by the structure of the organization that includes resources, systems, procedures, structures, organizational culture and other elements that together contribute to the reaching of (the Romanian Court of Auditors, p.10). In our opinion, this view over internal control is interesting as it extends control over all activities, tends towards perfection but as everything is connected to the law of relativity it will never come to reach it.

Moreover, we consider that among the objectives of specialized literature in Romania there have not been any preoccupations towards paying a special attention to the study of internal control who would break through to the inevitable area of nuances.

In Romania, the Internal/Managerial control code approved through order no. 400/2015 of the General Secretariat of the Government of Romania, takes over the definition provided by the law (Government Order 119/1999), in whose acception internal control represents the assembly of control forms exerted at the level of the public entity, including internal audit, established by the management in accordance with its objectives and legal regulations, in view of administering public funds economically, efficiently and effectively; these include also organizational structures, methods and procedures. Within the internal control code 16 standards of internal control have been introduced, defined in a non-comprehensive manner, allowing for their applicability by all managers of public institutions, while taking into account the diversity of the area and the specificity of public institutions. Thus, the establishment of internal control is the responsibility of the management of public institutions, by fulfilling the legal, organizational, personnel, financing specificities.

As can be observed, this code refers to public entities that are financed from public resources, without taking into account private entities. We agree with the obligation of establishing an internal control within public institutions for the premises created by management for the institution and can build the confidence of the stakeholders in the respective institutions, especially in the context of the present reality in which certain public institutions have to face the low confidence among the population. But that does not mean that only the management of the public entities is interested in a control that would ensure the smooth running of the activity of the company he is managing.

The necessity for the existence of an internal control of one sort or another is clear also in the case of private entities, whether created for economic purposes or not, because their „creator” shall be the more interested to receive signals of how the entity he helped create evolves, seeing as the financing source is ensured from its own patrimony.

If we analyse the definitions of the phrase „internal control” we will notice that there is no contradiction between them, they do not exclude nor deny each other. Each of them captures an angle of the vast notion of control and each of them wants to offer reasonable insurance to the

manager/owner, the so called „ownership”, with regards to the fulfilment of goals and objectives envisaged. In terms of the insurance it wishes to offer, we should not make the mistake of confusing internal control with a „watch dog” but notice that on the contrary, the entities in which there is internal control are as „a dog that has an owner”.

## **2. The contents and effectiveness of internal control**

The contents of internal control are the result of the assembly of policies, procedures, processes, operations adopted that have as attribute the fulfilment of the goals of the entity (Domnişoru et Vinătoru, 2008, p. 40). For the above it is needed to understand the activities developed by the entity, know the environment in which it operates to foresee, prevent and face the challenges and risks that may occur during the development of the activity.

Another vision on the contents of internal control consists of the assembly of the policies and procedures issued and implemented by the management of the public entity to ensure: meeting the objectives of the entity in an economic, efficient and effective way; fulfilling the regulations specific to the field, complying with the policies and decisions of the management; protecting assets and information; preventing and discovering fraud and errors; the quality of accounting documents as well as supplying in due time reliable information to the management (Law no. 672/2002).

In practice there are also organizations/companies that do not enunciate clearly and explicitly a framework for implementing a system for internal control but by issuing a set of procedures, job descriptions, by segregating tasks, implementing an accounting control, regular reporting, etc. thus ensure a control of their activity.

Organizing and implementing a control system is left to the management or leadership of the organization.

The aspects that must be considered in implementing an internal control need to take into consideration items such as: the internal and external environment, objectives set, events that can prevent the accomplishment of these objectives, assessment of the risks that can occur as a result of the development of the entity, but also risks specific to the sector of activity and the method of preventing their occurrence, the control of each activity developed, organizing a preventive as well as a detective financial control (such as accounting control), segregation of tasks, information and communication, so as to combat any anomalies that may interfere with the good development of the entity.

Although the opinions of the specialists differ, in our opinion, internal control is both an objective and a means to an end, and in order for it to produce its effects what is needed mainly is for the human resource, regardless of its level in the hierarchy, to act with professionalism, and to act with diligence in order to ensure compliance with policies and procedures of internal control, because in the end the people are those who add value and ensure the operation of any system.

The management must take into account the social and political evolutions, the ever so more complex structure of businesses, the legislative and operational dynamics as a result of the evolution of information technology; to adjust to the approaches of internal control in correlation with the above, which is also recommended by those who set the basis of COSO control mode, who, being aware of the changes that operate in society, were constantly preoccupied with correlating with the realities of society the work issued in 1992 entitled ”Internal control-General framework”, the latest amendment being contained by the third edition published in 2014.

We consider that in this context we may speak of an efficiency of the control within an organization only if its items are coherent and manage to correspond and fulfill the envisaged objective and are in a perpetual assessment in view of adjusting to changes, granting a certain freedom of action, considering that in the context of limitation there can be no evolution and performance seeing as any hyper control creates reluctance, blocking the activity and killing creativity.

If we position ourselves in the spirit of COCO, we may state that to accomplish the desired effectiveness, internal control is called upon to ensure:

- Identification and assessment of internal and external risks;

- The policies and the management plan aiming at fulfilling the objectives of the entity must be expressed clearly and without any doubt, so as to be known and understood by all persons employed by the entity;
- Connected objectives and plans must be exposed with the help of quantifiable performance indicators;
- A framework for the work must be established, the focus being on respecting ethical values and integrity;
- Creating an internal flow of the documents in order to ensure fulfilment of all activities with their due term and avoid any sanctions from external partners (state institutions can apply penalties for late payment of taxes and fees, suppliers may calculate penalties for not paying invoices on time);
- Human resource policies must be created to reward the professionalism and sanction any deviation from them;
- Regular and concise reporting must be implemented to allow the management to take correct decisions and respectively take and apply necessary measures;
- Focus must be on confidentiality in view of avoiding the leak of information that may affect the image of the company;
- Harboring an environment in which social abilities have an important role for ensuring cooperation among the persons that develop their activity within the various departments that contribute efficiently to the prompt enactment of activities.

One should also take into consideration that other domains are part of the contents of internal control, such as the business strategy and finances (Tophoff, 2013, CECAR translation). Designing and setting up efficient internal controls isn't always an easy task and cannot be accomplished through a small set of policies.

We consider that all the above aspects must be taken into consideration and included in a code of the internal control by every entity, in order to ensure a unitary implementation, as well as acknowledgement by all the personnel of the entity and even by actors from the external environment. The general manner in which this code would be issued might require the existence of certain norms or procedures for the implementation and application of the internal control that might describe explicitly the aspects to be considered while verifying every action ran by the entity. In view of the fact that effectiveness is considered to be the quality of an action/a system to produce the desired results (Avram, 2010, p. 110-111), and performance represents the measure of maximizing results consequently with diminishing efforts, we inevitably reach the idea that appreciating these nuances becomes very important indeed. Thus, the effectiveness and performance of internal control can be tested by performing an audit mission that certifies the good construction/establishment of the internal control, its conformity with the goals of the entity and the legislation applicable in the field of operation of the entity, as well as the quality of the information and communication that the internal regulations generate. The relation between the evaluation-assessment behaviour is one of part to equal, considering that one of the activities that the internal control implies/integrates is the audit itself.

### **3. The ambiguities and limitations of internal control**

An ambiguity of internal control is expressed by the popular belief: *«Is it broken? No! There's nothing to fix then...»*, because internal control, through its findings, must fight with the state of comfort brought by custom, the decisional linearity at every hierarchical level of the entity and manage to keep up with the environment, keep alive the spirit of proficiency and help the entity correlate its goals with the reality of daily life so as to prevent it from becoming obsolete.

Two models of internal control were created worldwide: COSO and COCO, whose value has been unanimously accepted in the economic literature and practice and whose principles were inserted in the internal regulations of the states and also in international standards regulating principles applicable to certain professions – especially the recommendations of COSO model (for instance audit standards). Nevertheless, even an ad literam compliance with their recommendations

in implementing a system of internal control may lead the entity to noticing the existence of deficiencies in the control implemented.

The ambiguity consists in the fact that even though it holds the recipe and knows the steps to follow to perform the control, the management finds itself in the situation of not obtaining the desired results, which is a consequence of the fact that it all depends on skills, ingredients and how they are mixed together.

A pertinent question arises, even when prudence, understanding and compliance are applied: *can internal control face limitations?* Without question, the answer is positive. Limitations can occur during internal control, being generated by:

- A good internal control cannot turn an incompetent manager in an efficient one (Kaplan Financial Knowledge Bank). We are of the opinion that, regardless of the information he comes to hold, a manager is required to use its „*sense of judgement*”, meaning his objectivity, overall vision and power of decision. We must also take into account that a manager may find himself in the position of taking radical decisions in a very short period of time, decisions that reflect in the good running or failure of the entity. We consider that in this case, „the ownership” of the entity will also be called upon to face this alarm signal and even if it is not involved directly in it, it should also be informed of the status of the entity; from a risk assessment view we could say that internal control is at the forefront of problem solving;
- The occurrence of judgement errors in taking decisions, human errors, secret arrangements (Kaplan Financial Knowledge Bank) even among basic professionals, in view of the principle demons were once angels, of the occurrence of conflicts of interest. On the other hand the management may not take into consideration the contents of the control. All of these do not mean anything else than the fact that any control supplies relative insurance, not absolute ones.
- The wrong perception over the purpose of control, by implementing a tyrannical control whose only result will be to prevent the entity from meeting its goals by making it difficult to develop its activities and lose its specialists who faced with a hostile environment in which they cannot express their convictions, will chose to leave. The skillset of the management shall be proved by the ingenuity with which it will be able to find the perfect balance between rigor and suppleness when issuing the entity’s internal control policies;
- Although the responsibilities of the management include maintaining a proper internal control system, (Avram, et all, 2010, p. 309), the price that the control implies must be weighed and compared with the benefits it brings (Kansas State University), including with the degree in which it manages to create and added value by its ability to predict, avoid and reduce the risks envisaged.

We agree that an internal control, no matter how well implemented, would have to face uncertainties both from the internal environment, but mostly from the external environment (the evolution of the business environment, the attitude of the law maker, etc.), but, most certainly, the information and counselling offered to the management would help considerably to reduce any negative impact over the entity.

## Conclusions

The control performed in an entity has as purpose supporting the entity in meeting its goals, acquire visibility, be transparent for the actors in the external environment, maintain the trust of its stakeholders. Internal control must target all the activities of the entity and not fall into the trap of attributing more importance to some more than to others, because it is often than the smallest problems come to create the biggest losses or are the ones to point to the existence of major shortcomings.

Implementing internal audit is the task of the management, but the responsibility of the internal audit belongs to all the levels of the hierarchy. By accomplishing an actual internal control the aim is mainly to provide the management with reasonable assurance that the objectives of the company are met. Emphasizing an internal audit that is limited only to a verification of the economic activity shall prove to be detrimental to the entity as the management will not be able to form a clear picture of the development and evolution of the other activities. Any deviations, errors, attempts of fraud may be found in any of the activities of the entity (for instance the personnel in the

purchasing department of the entity can have secret arrangements with suppliers, and by favouring one over another they may pursue benefits for themselves; within the human resource department there might be hirings that do not take into account the skills of the candidates but the advantages that they create for the persons selecting them), internal control being called upon to prevent the above from happening or if already occurred, to limit their effects on the patrimony and image of the entity.

Although until present no undeniable content was enunciated, not even in international literature, on long term internal control contributes not only in achieving the management's targets but also to the entity's prestige and longevity by helping it continuously modernize itself through the implementation of systems and concepts that correspond to the present time and by distancing the entity from concepts such as: „if it's broken don't fix it”

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## Conceptual Valences Regarding the Economic and Financial Performance of the Public Sector Institutions

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### Abstract

*The economic and financial performance of the public sector institutions represents a particularly current debate topic, receiving increasingly more attention both within the academic research and the practical activity, and, equally, an extensive and controversial subject, since it is still very difficult to be identified and quantified. The economic and financial performance concept was developed in the public sector institutions on the background of the growing degree of complexity in solving the problems they face, as a result of the consistent progress registered towards globalization as an overall phenomenon. Starting from the concept of performance in general, the main objective of this paper consists in identifying, presenting and advancing conceptual meanings regarding the economic and financial performance of the public sector institutions, through the delimitations and theoretical fundaments provided by the specialty literature. The paper is based on a quantitative research approach, aiming a deeper understanding of the debated concept.*

**Key words:** economic and financial performance, public sector, efficiency, effectiveness, rentability.

**J.E.L. classification:** I22, H52, H75.

### 1. Introduction

Starting from Marston's motto “*do not diminish your expectations to achieve performance, but raise the level of performance in order to meet your expectations*”, far from making a simple word game, we could say that performance is not only an essential lever to achieve the objectives, but also a motivating factor in order to become better, under competitive conditions.

Through this paper we aim to reflect, in polyhedral vision, the concept of *performance* in general and the concept of *economic and financial performance* in particular, through the delimitations and theoretical foundations provided by the specialized literature. To this end, we shall appeal to the scientific documentation, taking into consideration rich references including: specialty books, articles and studies, various reports issued by the specialized bodies in such issues and also research papers.

The main research tools used in the elaboration of this paper include: literature review, observation, analysis, synthesis, deductive reasoning and, sometimes, exemplification.

### 2. Conceptual Delimitations on Performance

Performance designates a wide, multidimensional, extremely complex and extensively debated

concept both in academic research and in pragmatic activity. With the title of testimonial, a simple search on the World Wide Web reveals over 1,280,000 results related to this notion.

In terms of etymology, the term “performance” is of Latin origin (*performare*), but its significance is rooted in English (*to perform, performance*). According to “Dictionnaire fiduciaire. Organization et gestion” the meaning of the word “performing” is to achieve entirely one thing, while “to perform” means application, execution, method, to achieve something regularly, to achieve it in a convenient manner.

On the other hand, the Explanatory Dictionary of the Romanian Language defines performance as “*a result (particularly good) obtained by someone in a sporting event; an outstanding achievement in a field; the best result of a technical system, machine, device etc.*” (Dicționarul Explicativ al Limbii Române, 2009, p. 802). This definition reveals the fact that the term was taken from mechanics and sports, subsequently being used to characterize the very good results achieved in other activity sectors.

Since the beginning of our initiative, we must mention that, **because of its multifaceted character, performance is a difficult term to define, the different characterizations that are associated with it being mostly subjective, sometimes even abstract or ambiguous.** Treating the problem in a realistic manner, since each stakeholder has his own vision by referring to his interests and objectives, an exposure of performance from an accounting perspective will not coincide either with the approach of those interested in the operational aspects of the business or with the vision of the actors concerned about its social effects. As an example, while the management focuses on the overall performance of the entity, the present and potential investors focus on performance in terms of their investments. In their turn, the commercial and financial lenders seek for liquidity and solvency issues, while for the staff prevails the flexicurity, namely job security and flexibility in relation to the working conditions (Avram *et al.*, 2011, p. 179).

Under these circumstances, although **so far it has not been performed at an unitary vision on the concept of performance**, in the followings we shall try to advance some landmarks of the research in the field, on the path of knowing the concept of economic and financial performance.

In a general manner, the performance is associated with a positive result of an action or an action which leads to success.

The specialists in this field consider **the performance a “sponge word” or a “suitcase word”**, whose variety of meanings revolve around three main connotations: success, result of an act or the action itself. In their view, the term of “performance” is the bearer of an ideology of progress, of effort, of achieving always more or better (Bourguignon, 1997, p. 94).

Another opinion worthy of taking into consideration and which highlights the multidimensional and polysemantic nature of the concept, is that according to which **performance is one of those “right words” in which everyone places the desired meaning, letting the definition to depend on the context** (Quoted by Tripon *et al.*, 2013, p. 83).

According to the approach of Colasse, performance can be expressed by meanings such as: *growth, rentability, profitability, productivity, yield, competitiveness* (Colasse, 2008, p. 23).

The organizational performance, as well as sports performance, captures the ability to progress thanks to constant efforts. Practically, performance means *competitiveness, action, effort, success, being the optimization of the present and the projection of the future*. Regarding this aspect, Kane was motivating that performance was what the individual left behind and what existed beyond the followed purpose (Quoted by Armstrong, 2004, p. 3). Extending the reasoning, Ganea considers performance as *the result of a deliberate construction, of a continuous effort, whose presence stimulates incessantly the success* (Ganea, 2012, p. 12).

### 3. Literature Review on Performance in the Public Sector

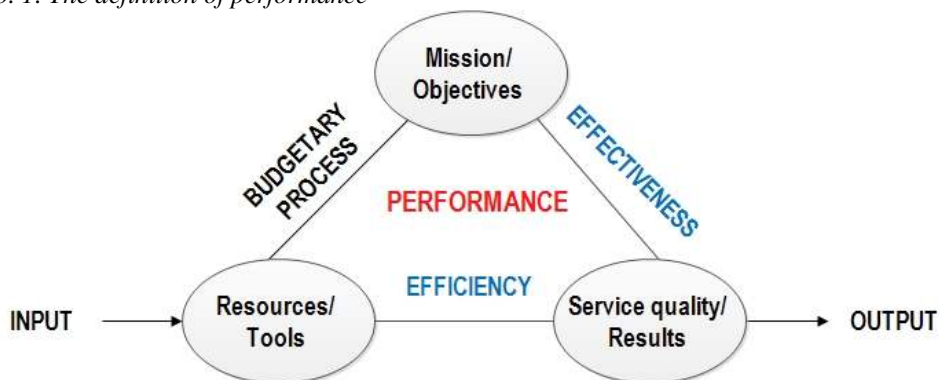
If we turn our attention to **the public sector**, the movements for the orientation towards performance require the development of the institutions, which must constantly adapt in order to meet the community public needs.

In the vision of Demestère, in the public sector, the concept of performance is located at the intersection of three concepts (Quoted by Matei, 2006, p. 191) regarding: not only the implementation of the guidelines followed by the institution with its own policy tools, focusing on

the target groups – “customers”, users and other actors of the public services provided by the institution, but also the effective use of the public entity’s resources in order to achieve the desired results.

As the author Profiroiu affirms, defining the public sector performance requires *the existence of a relationship between objectives, means and results so that performance is the result of the simultaneous exercise of the efficiency, effectiveness and an adequate budgetary process* (Profiroiu, 2001, p. 8). This definition is represented graphically in Figure no. 1.

Figure no. 1. The definition of performance



Source: (Matei, L., 2006, 192)

A more recent approach supports the transition from the 3E system (efficiency, effectiveness, economy) to a 5E system (economy, efficiency, effectiveness, environment and equity) *in order to incorporate in the definition of the public sector performance not only the financial aspects, but also those related to the achievement of the environmental and social equity objectives* (Chai, 2009, p. 68).

In the opinion of the specialists in accounting from the Academy of Economic Studies in Bucharest, defining the performance of public sector entities must capture polyvalent aspects such as (Ștefănescu *et al*, 2010, p. 114):

- connotations of the financial result;
- the quality and quantity of the services offered to the public;
- the number of users who have requested the services of the entity;
- the professional quality of the human resources from the entity;
- the credibility of the entity;
- the compliance with the public resources allocated to the entity;
- the economic, efficient and effective use of the public resources allocated;
- attracting financial resources complementary to the public ones in order to achieve the objectives;
- the outcomes recorded by the public as a consequence of the services provided by the entity;
- competitiveness on the market of the services offered by the private sector.

This complex of elements is represented through Figure no. 2.

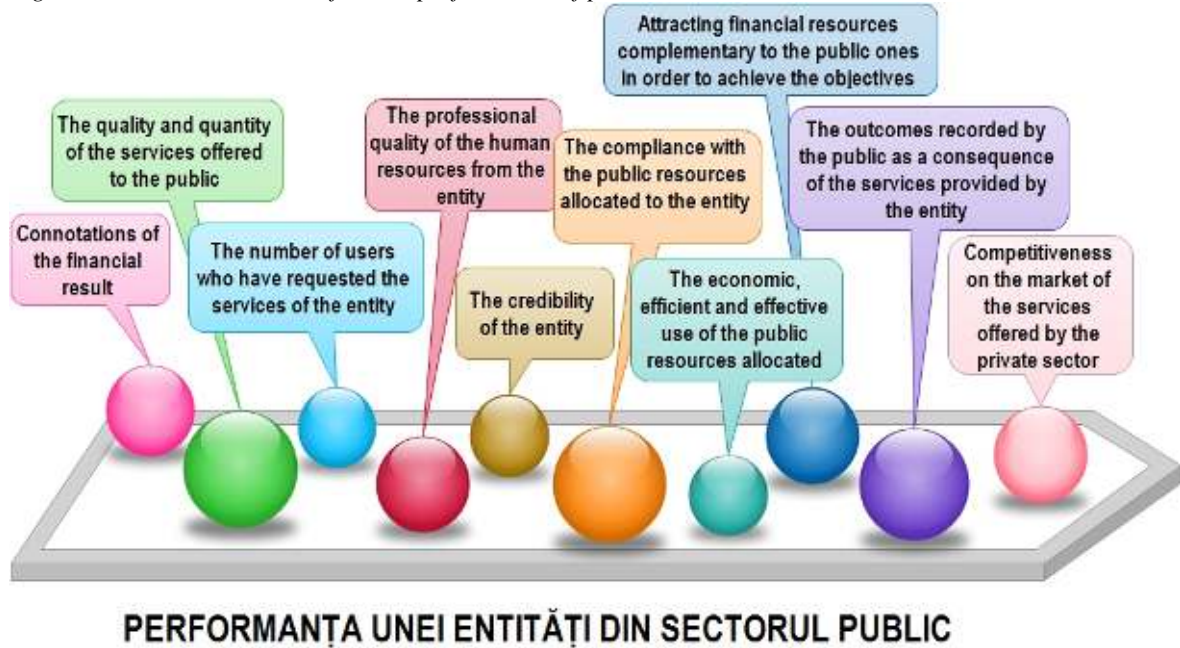
In the newest edition of the book entitled “*Management dans les organisations publiques*”, the authors Bartoli and Blatrix define performance through items such as *evaluation, pilotage, efficiency, effectiveness and quality* (Bartoli *et al*, 2015, p. 2).

From an accounting perspective, authors such as Robert and Colibert, and also Lande define performance in the public sector through *the accrual accounting*. The first ones consider the accrual accounting a very useful tool for evaluating performance, since it recognizes the expenses of the accounting year in relation to the corresponding revenues. Also, the last one emphasizes the usefulness and the finality of the information disseminated through the accrual accounting as a factor in reforming the public management culture (Quoted by Ștefănescu *et al*, 2010, p. 230).

At this level, it is interesting to follow and highlight how the performance concept is being approached by the national regulatory authorities in accounting.



Figure no. 2. Elements that define the performance of public sector entities



Source: (Processing after Ștefănescu, A., Calu, D.A., Țurlea, E., Nicolae, F., 2010, 114)

After analyzing the regulations in force in accounting (Order of the Minister of Public Finances no. 1917/2005, with the subsequent amendments and additions), *we note that the term of performance is used in its proper meaning only three times*, regarding:

- **the object of public accounting**, specifying as follows “*the accounting must provide the chronological and systematic registration, processing, publishing and keeping the information regarding the financial position, the financial performance and cash flows for both the requirements of the internal, as well as the external users: Government, Parliament, lenders, customers, and other users (the international financial institutions)*”;
- **the periodical summary reports** which „*must provide a true and fair view of the assets, liabilities, financial position (net assets/ net patrimony/ own equity), of the financial performance and of the patrimonial result*”;
- **the patrimonial result** which is being described as „*an economic result that expresses the financial performance of the public institution, respectively patrimonial surplus or deficit*”.

*As we can notice, the legislator regulates only the financial side of performance, focusing on the patrimonial result as a quantification tool.*

There are also autochthonous authors who associate to the concept of performance in the public sector a new dimension – *the performance through coercion* - which they define as “*the degree in which the limiting value of a type of revenue X leads to the occurrence or the increase of an extra-budgetary revenue category or to the restriction of the institution activity*” (Ștefănescu et al, 2009).

#### 4. Economic and Financial Performance in the Public Sector – Main Features

Getting nearer to the notion of economic and financial performance, full of meanings becomes also the remark of Jacot who stated that “*in achieving the overall performance, at physical level productivity is sought, at market level - competitiveness and at financial level - rentability*” (Jacot, 1997, p. 29).

Branded autochthonous authors, Lala Popa and Miculeac believe that the most common financial meanings of performance are *growth, rentability (economic and financial), profitability, productivity and competitiveness*. According to them, the information related to performance variability are important in predicting the entity's ability to generate cash flows using the existing resources and also to formulate judgments on the effectiveness with which it can use new resources (Lala Popa et al, 2009, p. 186).

In turn, Buglea considers that analysing the performance of an entity allows formulating assessments on *forming the activity results and on the correlation with its financial structure, liquidity and solvency* (Quoted by Achim *et al*, 2012, p. 266).

In turn, the professors Niculescu and Lavalette define the economic performance as the unstable equilibrium resulted from the evolution of the concepts of efficiency and effectiveness (Niculescu and Lavalette, 1999, p. 256). As well, Siminică presents the performance as *a function of two variables: efficiency and effectiveness*. In his view, if the effectiveness reflects the fulfillment of the external expectations, the efficiency is measured by the degree of fulfillment of the internal environment expectations (Siminică, 2012, p. 108).

In another optic, Robu, Anghel and Șerban define *efficiency* as maximizing the effect obtained per an unit of consumed effort or minimizing the consumed effort per an unit of obtained effect, while through *effectiveness* they understand achieving and overtaking the set objectives (Robu *et al*, 2014, p. 300).

According to the author Androniceanu, the concept of *efficiency* is used with the meaning of maximum effect of certain activities in relation to the allocated or consumed resources, while *the effectiveness* is understood as a set of processes through which a positive result expected, planned and wanted is achieved. In other words, the effectiveness is the capacity to produce the expected effect (Androniceanu, 2008, p. 329).

Recognizing that the definition, recognition, measurement and diagnosis of the economic and financial performance is a difficult and complex process, full of subjectivity and personal judgments, but absolutely necessary at the level of each entity, the author Ganea believes *that performance can be approached starting from the following elements: objectives, continuous effort, achieving potential, results, measurement system (indicators of performance expression), comparing the result with a well defined referential (internal or external, chosen or imposed), progress (to do better than last time), judgment and interpretation, comparison, analysis, decision* (Ganea, 2012, p. 17).

## 5. Results and Conclusions

We conclude by expressing our opinion according to which the commonly used is the concept of performance, the more difficult is to define it. However, reviewing the existing knowledge in the field, we have shown that there are some essential attributes that can be associated with it, in the attempt to describe it, namely: the complex, multidimensional and polysemantic character, the subjective approach and connotations related to achieving a positive result which usually exceeds expectations, under the difficult conditions, sometimes harsh, of the competition.

By reviewing this multiplicity of assertions and conceptual valences, we noted that economic and financial performance of an entity can not be conceived outside the diptych efficiency-effectiveness. These attributes should not be approached in a dichotomist or in a complementary way, as they represent composite elements of the performance concept, reflecting not only the internal judicious use of the resources, but also meeting the expectations of the external environment (business partners, financial lenders, public or community and others).

Compared with the private sector in which performance can be characterized by a 2E type dimension (efficiency and effectiveness), for the public sector we dare to advance a 6E approach, adding to the two previous variables not only the context of sustainable development in which the performance of a public institution must be appreciated, but also the economy, equity and the informational expressiveness, considering that, since the activity of the institutions in this sector is conducted on the basis of important public resources advanced by the state and supported by the community, the information transparency is imperative regarding the engagement of these funds as a performance criteria.

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## Specific Procedures and Techniques of the Creative Accounting Concerning Tangible Assets Reevaluation

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### Abstract

*For profoundly understanding the reality which is transposed in the financial situations of an entity, it is necessary that one knows the diverse procedures and techniques of creative accounting, with the purpose of subsequent identification of the cases in which it has been resorted to the “embellishing” of these financial situations, and in the same time for knowing the reasons and also the consequences of these techniques and procedures.*

*By creative accounting both the result and the entity’s audit may be influenced. Among the different procedures which influence the audit, the ones concerning tangible assets reevaluation are clearly distinguished, these usually being practiced by entities which are in difficulty, having the purpose of rising its own capital (by forthcoming the reevaluation reserves) and thus they may artificially increase their indebtedness capacity.*

**Key words:** creative accounting, tangible assets, reevaluation, reevaluation reserves

**J.E.L Classification:** M40, M41

### 1. Introduction

Although the financial information is made in a legal frame which precisely establishes the rules of its presentation, usually it is ascertained that many entities practice a result correction and a result adjustment, which is legitimate and legally. These entities take advantage of the juridical and financial laws’ versatility, from where the concept of creative accounting is derived. (Cernusca, 2004, p.385). Thus, the usage of creative accounting may be considered a result of flexibility allowed by the actual accounting regulations, which, when applied in good faith, leads to a trustworthy image concerning both of the financial position and also of the performance of the economical entity.

In order to present actual information, which are necessary to all categories of users, the entities need to apply the evaluation instrument and respectively the reevaluation one. This thing is due to the fact that there are a series of elements which action leads to the appearance of certain distortions. The next factors may be included: free prices, exchange ratio of national currency, internal management of economical agents. (Păvăloaia et. Al, 2006, p.7)

Creative accounting holds diverse procedures with great impact upon balance, which use as a mechanism exactly the tangible assets reevaluation.

Conceived and structured on a complex matter, the given paper is considering the presentation of certain elements from creative accounting which refer to tangible assets reevaluation, as well as a study case which practically reflects the inference of different creative accounting procedures and techniques which refer to tangible assets reevaluation of the elements’ accounting enlistments.

## **2. Methodology**

Any research which is intended to be a scientific one should have a purpose. The purpose of this research is to present certain theoretical and practical aspects concerning the importance of different creative accounting procedures and techniques, on tangible assets reevaluation.

The methodology I have used is based on theoretical research concerning concepts and regulations in the domain, accompanied by empirical research. For compassing this paper I appealed to studying the International Standards of Evaluation, to papers in the field of creative and financial accounting written by committed authors, to analyzing the regulations in the domain, thus being a qualitative exploratory research, and also, I have appealed to practical aspects which are specific to different procedures of creative accounting concerning tangible assets reevaluation, thus being a quantitative descriptive paper.

## **3. Tangible assets reevaluation**

Current assets are assets items, detained for more than a year, being generators of future economical benefits for the entity. (Matiş et al., 2010, p.144)

Tangible assets are those tangible elements detained for being used in manufacturing or in providing services, for being rented to a third party or for being used in managerial purposes, and which are envisioned to be used during different periods of time. (IAS 16, 2015, paragraph 6)

Tangible assets gradually lose a part of their value usage as a consequence of their utilization, as a consequence of natural agents' action and of technical progress. This physical and value depreciation is named attrition. (Pântea et al., 2013, p.57) Tangible assets attrition is adjusted and classified according to two main aspects:

- permanent, definitive and irreversible adjustment, also known as amortization
- reversible, temporary adjustment, also known as adjustment for depreciation (Matiş et al., 2010, p.146)

For tangible assets, accounting value at the balance date is determined based on the evaluation rules subsequent to the initial recognition, through reevaluation. Reevaluation of assets is the economical operation after which the accounting value of the assets is correlated with the actual value or with the inventory value, ensuring the relevant data enlistment in the annual financial reports, the calculation of economical-financial indicators in the most exact way, and therefore, a more exact note of the users of accounting information. In order to do that a great importance is the correct establishment of the reevaluated value. (Matiş et al., 2010. P.162)

The operations concerning the tangible assets reevaluation are recorded in accounting using mainly two treatments:

- the gross value of tangible assets and the cumulated amortization are simultaneously reevaluated;
- cumulated amortization and the depreciation adjustment are excluded from accounting value (Pântea et al., 2013, p.162).

## **4. Considerations concerning creative accounting**

Creative accounting is a communication technique which regards the amelioration of information given to the investors. Taking advantage of the normal limits of accounting we appraise that through creative accounting the image of financial position and of the company's performances is embellished, but we consider this kind of practice as being the borderline of legality. (Trotman, 1993, p.83)

In another point of view, creative accounting could be understood as the process by which management uses certain deficiencies or ambiguities in the wording of accounting rules in order to submit the financial performance of a specific image. (Shah, 1988 p.83-104)

From another point of view, creative accounting may be defined as an assembly of procedures, which targets either modifying the result's level, having the purpose to depreciate or to maximize it, or presenting the financial reports in a certain way, without them being mutually excluded.

Accounting options always were at the accountant’s disposal and these do not involve creativity in a strictly negative meaning of the word. (Stolowy, 2000, p.157-178)

Starting from the fact that the entities know the indicators followed by different users of accounting information, these are tempted to manipulate the numbers using diverse practices with effects upon the results or upon the different balance sheet items. As a result, a classification of these specific techniques and procedures used in creative accounting, may be made as follows:

- result account and accounting policy: modification of current results and of net result (amortization, provisioning, stocks, costs’ display), modifying the current result without influencing the net result, modifying the net result without influencing the current result (grants for investments), taxation and accounting policy (costs enabling)

- result account and management decisions: current result amelioration (manufacturing amelioration, loss attenuation or transfer), amelioration of net result (lease – back)

- techniques of balance amelioration: own equity / funds (assets’ reevaluation, financial montage), permanent loans (leasing), the need of working capital and treasury (discounting commerce effects). (Cernusca, 2004, p.403 – 404)

Among the creative accounting’s procedures and techniques, certain aspects concerning tangible assets reevaluation, will be presented for exemplification.

Reevaluation solution may cause free way towards manipulations. The choice of turning to a reevaluation of tangible assets has impact upon the increase of the asset’s value (and implicitly costs of amortization will increase too) and / or an increase of personal equity by respecting the limits of fiscal protocol. The entities being in difficulties may turn on to reevaluation as a subterfuge, in order to increase personal equity, with consequences on debt capacity. (Cernusca, 2004, p.429)

### 5. Study case concerning creative accounting techniques and procedures referring to tangible assets reevaluation

S.C. EXAMPLE S.A. has decided to reevaluate the immobilization in order to make annual financial reports. Following this procedure, the next the next were established:

- an installation acquired with the price of 170.600 RON, normal 10 years lifetime, amortized in linear mode, reevaluated at the end of the second year, with a real 197.200 RON value established by an authorized assessor

- a smoke chamber with a 185.238 RON input value, normal 20 years service life, linear mode amortization, reevaluated at the end of the forth year having a 203.762 RON value.

Further, the disposal of the appliance will be presented in the year following the reevaluation, as well as the implications of creative accounting, but also some aspects concerning the consequences that amortization costs have on the result, in the case when the smoke chamber is reevaluated.

Case 1: Selling the installation at 188.000 RON at the end of the third year

Table no.1: Presenting technical installation

Nr. Crt.	Fixed asset name	Input value	Normal lifespan	Amortized duration	Amortized value	Net value (unamortized)	Fair value
1.	Technical installation	170.600	10	2	34.120	136.480	197.200

Source: own creation

Registering reevaluation operation in accounting:

%	=	105 „Reevaluation reserves”	<u>60.720</u>
2131, „Technological equipments (machineries, facilities and work installations)”			26.600
2813, „Installations and transport means amortization”			34.120

The installation will be registered in accounting at its real 197200 value.

Case 1. 1: Disposing the installation when this would not have been reevaluated

1. Booking the costs cumulated by amortization, after three years			
6811,, Operating charges concerning depreciation of fixed assets”	=	2813,,Installation and means of transport amortization”	51.180
2. Installation sale			
461,, Diverse debtors”	=	7583,, Incomes from assets’ sale and other equity operations”	188.000
3. Management discharging			
%	=	2131,,Technological equipments machineries, facilities and work installations)”	<u>170.600</u>
2813,,Installations and means of transport amortization”			51.180
6583,, Costs concerning delivered assets and other capital operations”			119.420

Case 1.2: Disposing the installation when this was reevaluated

Recalculated amortization: Reevaluated value: 197200 RON, 8 years remained lifetime

Annual amortization= 197200/8 = 24650RON/year

1. Registered amortization costs			
6811,, Operating charges concerning depreciation of fixed assets”	=	2813,,Installation and means of transport amortization”	24.650
2. Installation sale			
461,, Diverse debtors”	=	7583,, Incomes from assets’ sale and other equity operations”	188.000
3. Management discharging			
%	=	2131,,Technological equipments machineries, facilities and work installations)”	<u>197.200</u>
2813,,Installations and means of transport amortization”			24.650
6583,,Che Costs concerning delivered assets and other capital operations”			172.550

The impact upon the result of installation’s selling operation both in the case when reevaluation is not made and also in the case when it is done:

*Table no.2: The incidence on the result of installation’s selling operation when it is not reevaluated, respectively when it is reevaluated:*

Incomes and costs of selling operation	Case in which the installation is not reevaluated	Case in which the installation is reevaluated
Selling incomes	188.000	188.000
Costs concerning delivered assets	(119.420)	(172.550)
Result from selling	68.580	15.450
Costs concerning amortization	(51.180)	(24.650)
Incidence on the result	17.400	(9.200)

Source: own creation

The decrease of profit may be observed from selling the reevaluated installation. This decrease may be compensated by transferring the excess from reevaluation to the reported result, in the moment when the selling process takes place.

105 „Reevaluation reserves”	=	1175,,Reported result representing the excess realized from reevaluation reserves”	60.720
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Following such operation, undistributed profit will be 60.720 when the installation is reevaluated, and the impact upon the result will be 51.520 (60.720 – 9.200); in the situation when the installation is not reevaluated, the impact on the result remains the same 17.400, and there is no undistributed profit.

Case 2: The impact of reevaluating the smoke chamber on the amortization, respectively on the result.

Table no.3 Technical installation presentation

Nr. Crt.	Fixed asset name	Input value	Normal lifespan	Amortized duration	Amortized value	Net value (unamortized)	Fair value
1.	Smoke chamber	185.238	20	4	37.047	148.190	203.762

Source: own creation

In the case of S.C. EXAMPLE S.A, smoke chamber was reevaluated at 203.762 with 110% index update representing the fair value, also taking into consideration its physical and moral usage. The difference from reevaluation is registered, consisting in an increase of reserves from reevaluation.

The updated accounting value = The outdated accounting value x update index = 185.238,66 x 110% = 203.762,526

The cumulated amortization updated value = the outdated amortization value x update index = 37.047,732 x 110% = 40.752,505

Table no.4 Comparative presentation of technical installation in the situation when it is not reevaluated, respectively after being reevaluated

	Before reevaluation	After reevaluation	Differences
Input accounting value	185238	244515	59276
Cumulated amortization	37047	40752	3704
Net accounting value	148190	203762	55571

Source: own creation

Accounting registration of evaluation process

212 „Constructions”	=	%	59.276
		105 „Reevaluation reserves”	55.571
		2812 „Constructions’ amortization”	3.704

Smoke chamber reevaluation leads both to an increase of amortizable base from 185.238 RON before reevaluation to 244.515 RON after reevaluation, and also to an amortization increase from 37.047 RON to 40.752 RON. Increasing amortization costs has effects on diminishing the result.

Starting from the fact that the remained useful life period of the tangible assets is 16 years, afferent amortization costs to each financial exercise are calculated:

Amortization costs for the situation when the smoke chamber is not reevaluated:

Net value / lifetime=148.190/16=9.262 RON

Amortization costs for the situation when the smoke chamber is reevaluated:

Net value (fair value) / lifetime=203.762/16=12.735

By comparing the amortization costs in the two cases, one can observe their increase after reevaluation.

Solution 1: amortization costs will be fully taken by the next exercises’ corresponding results for the next 16 years, using the operation:

6811 „Operating expenses concerning tangible assets amortization”	=	2812 „Constructions’ amortization”	123.735
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Solution 2: Amortization supplement of 12.375 - 9.262 = 3.473 will be taken by reevaluation reserves, using the operation:

%	=	2812 „Construction amortization”	12.735
6811 „Operating expenses concerning Tangible assets amortization”			9.262
105 „Reevaluation reserves”			3.473



The results of fixed assets reevaluation may have medium or long term consequences on the result, leading to an increase of taxable base and therefore to an increase of amortizations, with effects on diminishing the result.

## 6. Conclusions

Tangible assets' reevaluation, through the differences resulted from reevaluation, through the influence it has on the amortization's calculation base, the influence on the entity's result, leads to some “embellishment” of balance. These means constitutes techniques and procedures of creative accounting.

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## CSR Communication in the Romanian Banking System

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### Abstract

*The CSR dimensions of the Romanian banking sector should be linked to the key role of the financial enterprises, as primary intermediaries on the global market. This position results from their ability to rapidly spread positive or negative economic circumstances on the other markets, influencing the financial sustainability of the entire world as a whole. Various differences has been noted in the Romanian banking system due to the importance attached to representative stakeholders and to the CSR communication tools. Starting from the relationship between stakeholders and the reputational value, this paper aims to establish a valuable approach to the existing connections between the main stakeholders and the CSR communication strategies in Romania. The focus is on the efforts to regain the trust in banks through developing the corporate identities in accordance with the CSR principles.*

**Key words:** corporate social responsibility, banking sector, Romania

**J.E.L. classification:** G21, M14

### 1. Introduction

The concept of corporate social responsibility has known many definitions and the meaning has changed over time, being integrated in many approaches from “corporate social performance” (Wood, 1991, pp. 691-718) to “corporate citizenship” (Maignan, 2001, pp. 57-72) or “corporate responsibility” (Gainet, 2010, pp. 195-222), demonstrating an increased correlation with broader concepts as globalization and respect of human rights, global economic crises or environmental issues.

The evolution of the concept is also emphasized by the differences in CSR theorizing literature. The corporate social responsibility is subject to regular reassessments based on the significant historical stages. The term has suffered numerous variations over time, the most widely recognized concept being used by Carroll (1979, pp. 499), who was focused on the four pillars in developing the CSR concept: economic, legal, ethical and discretionary. This pyramid starts from the basic responsibility of a company, the profit, evolving to a higher form of responsibility, the philanthropic one, directly connected with the society welfare.

The multidimensional approach developed by Carroll is in direct opposition to the unidimensional approach pursued by Podnar and Golob (2007, pp. 326-340), although in the literature, the multidimensional model prevails. Another interpretation found the following categories in the CSR field: the instrumental theories, the political theories, the ethical theories and the integrative ones (Garriga and Melé, 2004, p. 51). The current theoretical framework presents some gaps in terms of shaping the CSR models according to the dynamics of the financial market and to the influence of banks on CSR, representing the starting point for this paper.

Although there are fewer studies that focus on the social responsibility in banks compared to the studies that are based on the non-financial companies, there are more powerful implications in terms of business ethics and reputation. The changes in the banking sector lead to the concept of “the socially responsible banking” (Scholtens, 2009, p. 159), both in the theory and in the practice of the banking industry. The importance of banks as primary intermediaries between savers and those who need financial resources is enhanced by their ability to influence the market and their

monitoring function. In this respect, every investment is carefully analyzed in terms of social, environmental or ethical issues, so as to create a positive image by completing the short-term financial objectives with the long term objectives, in the field of sustainability.

## 2. Methodology

This paper aims to analyze the CSR activity in the Romanian banking market, considering ten banks which belong to the European groups, taking into account significant indicators extracted from the literature, from the CSR reports and from their websites. The choice of banking institutions by market share and the total value of assets allows, through their size and the models of best practices offered, to shape a representative image of the Romanian banking system.

The banks included in the analysis were extracted from the Top 100 SEE - Southeast Europe's Biggest Companies 2015 and according to the data provided by the National Bank of Romania. The “best-in-class” approach, retaining the top ten banks in Romania by market share and the specific considered criteria, is also used in the Dow Jones Sustainability Index and FTSE4Good. The content analysis will be based on the stakeholder theory by identifying relevant stakeholders for each of the banking institutions submitted for the analysis.

In this research, it was used as a source of primary information the CSR reports available on the banks websites, and in their absence, the annual or the financial reports, completed by a careful study of websites and other specific documents. The paper will include a content analysis of the websites and also a content analysis of the CSR reports. In case that the specific CSR reports are not available, it will be used the environmental reports, annual reports, corporate governance codes or codes of ethics, in order to obtain the necessary information. If the banks do not report their activity by some indicators, it will be considered that they are not active.

## 3. Economic aspects of the financial enterprises in the Romanian banking sector

According to Table 1, the subsidiaries in Romania of foreign banks on which the analysis was focused are the following: BCR, BRD, Raiffeisen Bank, UniCredit Bank, ING Bank, Alpha Bank Romania, Bancpost, Piraeus Bank, Romanian Bank (Banca Românească SA), OTP Bank Romania. In order to select the banks, it was used two specific criteria: market share and value of total assets.

*Table 1 The analyzed banks by total assets and market share, 2014*

No.	Bank	Group	Total assets (mil. lei) 2014	Market share
1	BCR	Erste Group Bank AG	59 037,1	16,2%
2	BRD	Société Générale	45 180,0	12,4%
3	Raiffeisen Bank	Raiffeisen Bank International AG	28 734,6	7,9%
4	UniCredit Bank	UniCredit	28 698,4	7,9%
5	ING Bank	ING	18 738,5	5,1%
6	Alpha Bank Romania	Alpha Bank	16 955,1	4,6%
7	Bancpost	Eurobank	11 535,2	3,1%
8	Piraeus Bank	Piraeus Bank	8 998,2	2,5%
9	Romanian Bank	National Bank of Greece	6 773,6	1,9%
10	OTP Bank Romania	OTP Group	4 740,8	1,3%

Source: National Bank of Romania – Annual Report 2014, [www.bnr.ro](http://www.bnr.ro)

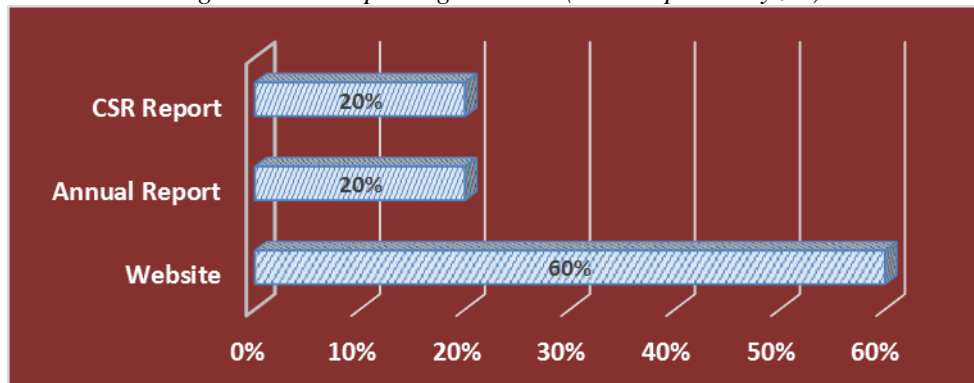
According to the annual and financial reports or to the press releases submitted by the proposed banks and considering only the sample, the top 5 ranking by the amount of net profits for the year 2015 are the following banks: BCR (963.4 million LEI), BRD (467.2 million LEI), Raiffesien Bank (443.4 million LEI), ING (333 million LEI) and Unicredit (269.5 million LEI).

#### 4. The CSR reporting in banks

In Romania, the banking sector has a modest orientation for the non-financial reporting results, although the relevance of CSR actions has gained a great spread in recent years. The development of CSR principles and the international frameworks in the CSR field (ISO 26000 Standard, OCDE Guidelines, Global Reporting Initiative, etc.) have transposed into Romanian market through voluntary arrangements (soft law), preceding the European context which adopted at the end of the year 2014 the Directive 2014/95/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. Until the implementation of this Directive in the Romanian legislation, a number of companies (especially multinational corporations) had already adopted CSR reporting practices, especially through the websites.

Regarding the sample of banks included in the Figure 1, there is a disproportionate and lack of transparency in the CSR disclosure. Only two banks from the sample has followed GRI Guidelines 2014 (OTP Bank and Raiffeisen Bank - GRI version G3.1), while only Raiffeisen Bank publication has followed the GRI Reporting Framework for the year 2015 (Annual Corporate Responsibility Report 2014), the GRI4 version. Global Reporting Initiative is an international framework for reporting the CSR results, commonly used by different organizations around the world.

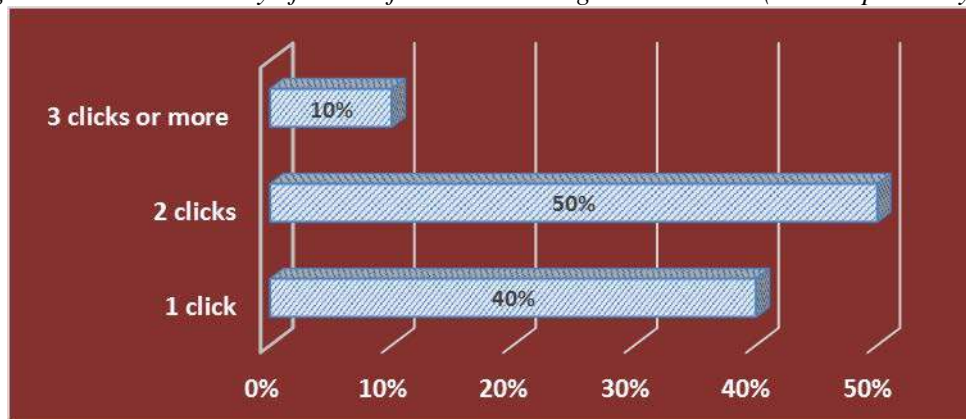
Figure 1 CSR reporting in banks (the sample analyzed)



Source: author

The permissive legal framework in Romania has encouraged the banks to publish partial CSR information, choosing from different ways of reporting such as: websites, annual reports or separate CSR reports. As shown in Figure 1, the information about the CSR actions can be found for 60% of the banks only through their websites, while 20% of banks have included CSR data in their annual reports and only 20% of the sample have separate CSR reports (Raiffeisen Bank and OTP Bank), updated for the year 2014.

Figure 2 The accessibility of CSR information through the websites (the sample analyzed)



Source: author

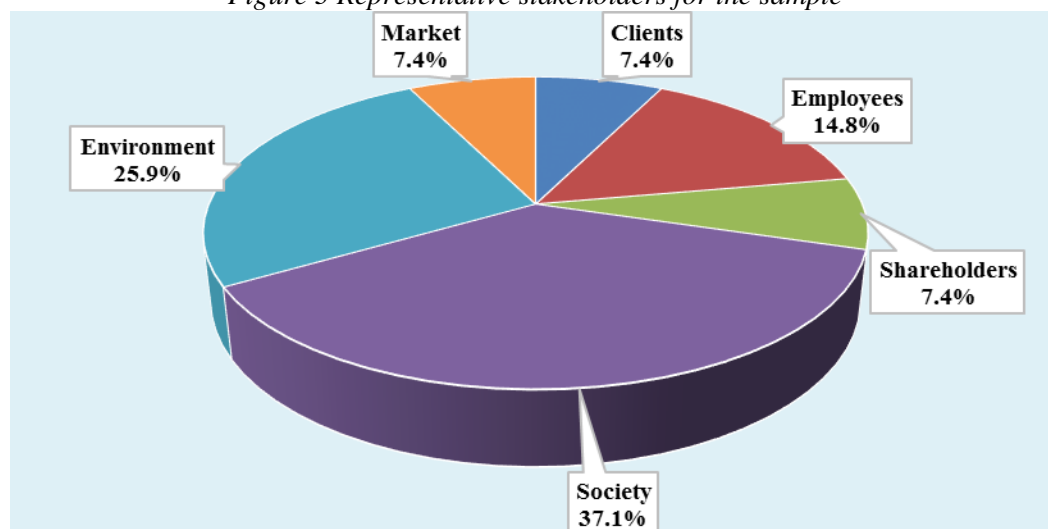
The access to the CSR sections within the websites is easy (only one click, on the Home page) for 40% of the sample, while for 50% of the banks analyzed the access is more difficult (two clicks) and for 10% of the banks, there is three clicks or more (Figure 2). In this regard, Piraeus Bank Romania has not a separate section dedicated to CSR activities in the website, the information being available in the Annual Report 2014, the Business Segment Activity section.

Although the presence of CSR data was found for all the banks included in the analysis, there is a different level of transparency of this information, each bank including CSR specific elements directly on the official website or through specific reports. There were observed distinct degrees of disclosure, from some information/statements about CSR implemented projects on the website or in the annual report, in compliance with the Global Reporting Initiative. However, there were situations in which the available data have not been updated, such as the case of BCR (Corporate Social Responsibility Report 2009-2010) or Romanian Bank (CSR detailed information included in the Annual Report 2009).

## 5. Representative stakeholders for the Romanian banking environment

All the banking institutions have considered the stakeholder theory in the way of reporting the CSR information on their websites or in their specific reports. The bank sector need to adopt a clear strategy of maintaining a good balance between the social and economic aspects of their services, in order to meet the customer needs (Rugimbana et al., 2008, p. 72). In the new economy, the companies must simultaneously meet the needs of their stakeholders and those of their shareholders, so as the strategic directions pursued in the CSR development to meet the financial objectives targeted. The CSR options of financial corporations must be properly sized to the expectations of stakeholders and permanently adjusted to their response.

Figure 3 Representative stakeholders for the sample



Source: author

For the analyzed banks, it was identified the following categories of stakeholders: customers, employees, shareholders, society, environment and market. As shown in Figure 3, CSR actions directed to the society prevailed, all the banks including community initiatives in their CSR strategies. Most often, these actions take the form of philanthropy by supporting projects like sports events or sponsorship programs in order to increase the access to education, being also a form of financial support to health issues.

Three of the analyzed banks have only communicate their CSR results that matches with the community involvement strategy, namely BCR, ING and Bancpost. Under the various BCR projects (“Education for the development of practical skills”, “Supporting and promoting leaders and models”, “Civic Leadership”) are developed a series of initiatives that aim to contribute to the sustainable development of a society: Summer job in BCR, START! Business, YouthBank, Social

Impact Award, National Olympics, The bakery for good deeds, etc. ING Bank Romania has built its CSR strategy based on three main directions: financial education and entrepreneurship, education for children from disadvantaged groups and urban development. Regarding Bancpost, the data confirm the link established between CSR activities and the communities in which the bank operates, by financing hospitals and educational institutions, but also the events that support local companies and their products (fairs, forums, trade exhibitions).

A significant share in the CSR activity of the analyzed banks was for the environmental projects, which are found in seven financial corporations. In this case, there are three banks that have considered only the society and the environment as representative stakeholders: Alpha Bank, Piraeus Bank and Romanian Bank. They have limited their social responsibility initiatives according to the specific needs of these two categories of stakeholders. In the environmental field, there have been identified the following particular actions: the implementation of an environmental protection policy within the bank, ensuring an efficient use of resources, a precise environmental risk assessment in the funding process or environmental and volunteering projects.

An interesting point regarding the CSR communication of Alpha Bank, Piraeus Bank and Romanian Bank in the environmental field is the lack of transparency and the limited information. Thus, the Alpha Bank website contains just a synthesis of the main supported projects, Piraeus Bank presents a single paragraph about CSR in the Annual Report 2014, while the Romanian Bank position is ambiguous, by highlighting in the CSR section the compliance with the environmental legislation and the integration of the environmental standards in the operational activity. In this regard, the actions reported by the Romanian Bank can be classified according to Carroll's pyramid in the legal dimension.

Only four banks from the sample focuses on more than two stakeholders (environment and society): BRD, Raiffeisen Bank, UniCredit Bank and OTP Bank. The next category of representative stakeholders for the banking sector are the employees, who were included in the communication strategies of CSR activities in all the four banks. It can be noticed similar actions focused on employees in the banks analyzed, from investment in human capital development, remuneration policy, compensation and benefits, training and performance assessment. Except BRD, which has brief mentions on the website about employees, the other three banks have detailed sections on this topic in their CSR reports (Raiffeisen Bank and OTP Bank) or in the annual report (UniCredit Bank). The shareholders, the customers and the market have a low interest for the analyzed sample, by sections ranging from a few lines to a number of pages. The emphasize is on establishing lasting relationships with clients through the direct dialogue, rewarding the shareholders with a sustainable profit and offering them the correct information, but also maintaining a permanent dialogue with other stakeholders on the market in order to improve the business environment.

## **6. Conclusions**

In response to the stakeholder pressure, the banks that activate in Romania have used the voluntary reporting as a useful tool in order to legitimize their activity. Starting from the initial analysis, it was noticed that a specific feature of the banking sector is the focus on two categories of stakeholders: the community and the environment. Although the human resources has a particular importance for the sectors that provide services, such as banks, the responsibility towards the employees is rather vague in the Romanian CSR, being integrated in the annual reports and in the CSR reports and less disseminated within the websites. The current trend confirms the main direction of corporate social responsibility in Romania, which is dominated by an intense marketing activity in order to obtain material benefits from their image on the market.

The Romanian banking environment tend to focus on CSR communication through the website on the community and the environment. Instead, they use the reports in order to highlight the results for the shareholders and the employees. Thus, the society has the most influence in building the corporate image, while the environment can significantly contribute to improving the position of the banks on the market by compensating the negative practices with the positive environmental initiatives. These features emphasize the CSR approach in Romania, which can be seen as a marketing tool that can help strengthen the corporate reputational image of the banks.

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## The Adjusted Net Asset Valuation Method – Connecting the dots between Theory and Practice

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### Abstract

*The valuation of an entity is an intricate process leading to the establishment of its market value. A company’s value is created, on one hand, by its assets and liabilities and, on the other hand, by its capacity to generate future economic benefits. In order to evaluate the equity of a company a balance sheet-based valuation method is used, most commonly the adjusted net assets valuation method.*

*The goal of this paper is to present the theoretical background of this method as well as its practical application. We will first analyze the main theoretical issues regarding the corrections that need to be performed in order to transform the book value of assets and liabilities to their market value, afterwards proceeding to an example on how this method is applied to the balance sheet of a company. Finally, we will conclude on the importance of the method for a company’s evaluation process.*

**Key words:** adjusted net assets method, balance sheet, book value, market value

**J.E.L. classification:** G12, M41

### 1. Introduction

The valuation of a company is a complex activity whose main purpose is to determine the market value of the business. Since value is not a sheer concept, the scientific literature and the practitioners’ experience led to the development of different types of valuation methods, each capable to deliver a specific approach to what is valuable in an entity’s activity.

The most commonly used type of value when evaluating an asset is its market value. According to the International Valuation Standards Council the market value represents ”the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgably, prudently and without compulsion.” (IVSC, 2014)

The same IVSC defines the enterprise value as ”the total value of the equity in a business plus the value of its debt or debt-related liabilities, minus any cash or cash equivalents available to meet those liabilities.” (IVSC, 2014)

The structure of an enterprise’s value can only be understand if we take under consideration a double approach, according to which a business represents a sum of assets, rights and liabilities, on one side, and a functional system, capable to generate economic benefits, on the other side. In other words, the value of a company is determine by its present value, calculated based on the assets and liabilities situation, but taking under account its future results, estimated based on forecasts of the evolution of its activity.

Therefore, one of the first steps that needs to be taken in valuating a company is the calculation of the market value of its assets and liabilities. In order to do that the starting point is the balance sheet that provides the book value of the assets and liabilities.



In the next chapter we will present a theoretical approach of the balance sheet-based valuation methods.

## **2. A short theoretical background**

The balance sheet-based valuation methods are traditionally used to determine the value of a company's assets and liabilities. They determine the value from a static point of view and do not consider the company's future evolution or external influence factor such as money's temporary value and the industry's situation. Being based on the balance sheet, they also tend to ignore elements that cannot be quantified in the financial situations, such as human resources quality, market position, contracts etc. (Fernandez, 2007, p. 6).

The asset based approach is defined by the International Valuation Standards Council as “a method of indicating the value of a business or a business interest based on a summation of the net value of the individual assets and liabilities.” (IVSC, 2014)

The assets-based approach to business' valuation finds its starting point in the information reported in the balance sheet. The first method that can be applied to determine the net value of assets is the book value method that calculates the value of a company by subtracting the value of its liabilities from that of its assets. But such an approach is not without fault since book value is calculated based on accounting principles and has little to do with the market value of a company.

Some of the disadvantages of the book value method are overcome by the adjusted net value approach. All assets and liabilities are reevaluated based on their market value, income or cost, therefore providing a more accurate perspective on the economic value of a company's equity.

Calculating the adjusted net assets value of an enterprise is a three steps procedure. First all the assets are separated into operational and non-operational assets, secondly all the operational assets are reevaluated to their market value and finally, the adjusted net assets value is calculated by subtracting the corrected value of liabilities from the corrected value of assets.

The separation of assets into operational and non-operational is made based on the degree to which they participate in the achievement of the company's income. After this separation is made, all the operational assets and liabilities need to be reevaluated by taking under consideration value influencing factors such as market prices evolution, exchange rates, technical conditions or usage degree, accounting policies and any other factor that was highlighted by the diagnosis of the entity's activity. Robu et. al. provides a detailed description of the methods used for valuating each category of assets and liabilities.

In the following chapter we will try to provide a practical example of the use of adjusted net assets valuation method.

## **3. Applying the adjusted net assets method into practice**

To illustrate the practical application of the adjusted net assets valuation method in determining the market value of an entity's shares we will start from the assets and liabilities of a company, as revealed by its balance sheet. We will also use additional information arising from the diagnostic analysis of the company's activity. The company is acting in the production sector and its capital is divided into 36.000 ordinary shares with a book value of 15 lei each and an intrinsic value of 21.28 lei per share.

### **3.1. Valuation of non-current assets**

According to its financial statements the company has non-current assets of 1.377.258 lei, divided into three categories: intangible assets of 29.152 lei, fixed assets of 1.343.106 lei and long-term investments of 1.292 lei. For each type of assets we need to apply specific valuation methods in order to transform the balance-sheet value, which is an accounting value, into its market value.

The intangible assets are composed of development expenditures of 4.720 lei, intellectual property rights of 1.512 lei and advances and intangible assets in progress of 22.920 lei. The development expenditures cannot be identified by project therefore their value needs to be eliminated from calculation; while the other intangible assets will remain at their balance-sheet value.

In the fixed assets category the company reports lands of 31.214 lei, buildings at a net accounting value of 500.040 lei, machinery and equipment at a net accounting value of 809.416 lei, other fixed assets of 2.088 lei and advances and fixed assets in progress of 348 lei.

The company owns a surface of 5.000 square meters of land at an accounting value of 6,2428 lei/m<sup>2</sup>. The market value of the land was estimated using a market comparison valuation method at 6,6148 lei/m<sup>2</sup>, thus resulting a 1.860 lei increase of value to 33.074 lei.

The building owned by the company is used for operating purposes, is relatively new, being raised two years ago. It will be valued based on the net replacement cost method. The method consists in first determining the gross replacement cost based on the costs necessary for building a new construction with the same characteristics as the analyzed one and afterwards taking into consideration the depreciation of the existing building.

For the company’s building the gross replacement cost is estimated at 504.000 lei. The building is not physically depreciated thus the only depreciation that needs to be taken under account is the external one that arises from factors such as location or local market conditions. By comparing the market transactions of similar real estate’s we conclude that the value of the building is not influenced by external depreciation, but rather an appreciation of value estimated at 50% of its gross replacement cost.

Therefore the net replacement value of the building will be: 504.000 lei x (1+0.5) = 756.000 lei, which leads to a necessary correction of plus 255.960 lei.

The machinery and equipment consists of a technical assembly line bought two years ago at a price of 879.800 lei with a useful life of 25 years and an output of 1.500 units/day. It will also be valued using the net replacement cost method.

The gross replacement cost is estimated based on the market price of similar equipment at the valuation date. The cost of a new equipment is established at 1.250.000 lei but its production capacity is of 2.000 units/day and the cost-capacity factor (an indicator showing the link between the cost and the output of a machinery) is 0.6. The gross replacement cost of the equipment is calculated using the cost-capacity method as follows:

$$\frac{C_2}{C_1} = \left(\frac{Q_2}{Q_1}\right)^{\text{cost-capacity factor}} \quad (1)$$

where:

C<sub>2</sub> – the unknown cost of the existing equipment that has a production output of Q<sub>2</sub>;

C<sub>1</sub> – the market price of a similar equipment that has a production output of Q<sub>1</sub>

$$\frac{C_2}{1.250.000} = \left(\frac{1.500}{2.000}\right)^{0,6} \quad (2)$$

$$C_2 = 1.250.000 \text{ lei} \times 0,841466 = 1.051.832 \text{ lei} - \text{gross replacement cost} \quad (3)$$

The depreciation taken under account is composed of a physical and functional depreciation estimated based on the age, the technical condition and the usage degree. Since the asset has a useful life of 25 years of which two years have passed, the gross replacement cost will be adjusted by applying a 92% correction (23 years/25 years).

The market value of the machinery and equipment is so established at 967.685 lei, imposing a positive correction of 158.269 lei.

The other fixed assets, consisting of office furniture, are relatively new and therefore no value correction is necessary.

The long-term investments consist of 1.000 ordinary shares issued by another company at a nominal value of 5 lei/share, representing 8% of its equity. The dividend per share estimated for the next year is 6 lei in and the constant dividend growth rate is 3%. The required rate of return for companies with similar risk and return characteristics is 17%. The issuing company is not listed on the capital market but is making the necessary steps towards quotation in the next year. The usual discounts for such entities are between 5 and 10%.

Since the issuing company is not listed on the capital market, the calculation of the shares’ value will be performed using the Gordon-Shapiro model also known as the Dividend Discount Model. The value of the stock will be:

$$P = \frac{D_1}{k-g} = \frac{6 \text{ lei}}{(0.17-0.03)} = 42.85 \text{ lei (4)}$$

where:

P – price of the valuated share;

D<sub>1</sub> – next year’s expected dividend;

k – required rate of return;

g – constant dividend growth rate;

Because the issuing company is not listed on the capital market a discount for the lack of liquidity needs to be applied to that value. Since the company intends to list its shares in the near futures we will use the minimum discount of 5%. So, the market value of one share will become 40,7 lei and the total value of shares owned by the valuated company will be 40.700 lei.

The corrections made to the accounting value of non-current assets and their market value are summarized in table 1.

Table 1. The valuation of non-current assets using the adjusted net assets method

	Accounting value	Corrections	Market value
<b>I. Intangible assets</b>	<b>29.152</b>		<b>24.432</b>
I.1. Development expenditures	4.720	(4.720)	0
I.2. Intellectual property	1.512	0	1.512
I.3. Advances and intangible assets in progress	22.920	0	22.920
<b>II. Fixed assets</b>	<b>1.343.106</b>		<b>1.759.195</b>
II.1. Land	31.214	1.860	33.074
II.2 Buildings	500.040	255.960	756.000
II.3. Machinery and Equipment	809.416	158.269	967.685
II.4. Other fixed assets	2.088	0	2.088
II.5. Advances and fixed assets in progress	348	0	348
<b>III. Long-term investments</b>	<b>5.000</b>	<b>35.700</b>	<b>40.700</b>
<b>Non-current assets – total</b>	<b>1.377.258</b>	<b>447.069</b>	<b>1.824.327</b>

Source: own processing based on the balance-sheet

### 3.2. Valuation of current assets

The company’s current assets have a total value of 816.914 lei and are represented by inventory of 343.966 lei, receivables of 417.300 lei and cash and cash equivalents of 55.648 lei.

The raw materials inventory is valuated in the balance-sheet using the LIFO method, which leads to their undervaluation. Therefore, we will reevaluate the raw materials inventory using the FIFO method and increase their value with 4.025 lei.

In the finished goods category a number of 30 products have manufacturing defects and their total value of 3.000 lei will be deducted for calculation.

The trade receivables of the company include uncollectable debts of 105.073 lei, for which no provisions have been made. Therefore a negative correction of trade receivables to a market value of 273.021 lei is necessary.

After analyzing the balance-sheet and the other information, we conclude that no other correction of value is needed and the market value of current assets is as follows (table 2):

Table 2. The valuation of current assets using the adjusted net assets method

	Accounting value	Corrections	Market value
<b>I. Inventory</b>	<b>343.962</b>		<b>344.987</b>
I.1. Raw materials	170.988	4.025	175.013
I.2. Work in process	20.010	0	20.010
I.3. Finished goods and merchandises	147.000	(3.000)	144.000
I.4. Advance payments on future purchases	5.964	0	5.964
<b>II. Receivables</b>	<b>417.300</b>		<b>312.227</b>
II.1. Trade receivables	378.094	(105.073)	273.021
II.2. Other receivables	39.206	0	39.206
<b>III. Cash and cash equivalents</b>	<b>55.648</b>	<b>0</b>	<b>55.648</b>

<b>Current assets - total</b>	<b>816.910</b>	<b>(104.048)</b>	<b>712.862</b>
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Source: own processing based on the balance-sheet

Before moving forward to the valuation of liabilities we also note the existence in the balance sheet of prepaid expenses of 2.914 lei that need to be eliminated from calculation.

### 3.3. Valuation of liabilities

At the date of the valuation, the company reports liabilities of 1.430.982 lei consisting of commercial liabilities, a long-term credit and other liabilities.

Since the company shows a risk of non-collecting its receivables a provision for risks and expenses needs to be created. By analyzing the rate of non-collection in the past year we estimate that the value of this provision is 113.428 lei.

Also, the tax expenses for the fictitious plus value of assets is calculated at a rate of 16%, generating a value of 72.930 lei, which will be included in the reevaluated liabilities.

No other corrections in the value of liabilities are necessary therefore the market value of liabilities is as follows (table 3):

Table 3. The valuation of liabilities using the adjusted net assets method

	<b>Accounting value</b>	<b>Corrections</b>	<b>Market value</b>
Long-term credit	715.491	0	715.491
Commercial liabilities	572.393	0	572.393
Other liabilities	143.098	0	143.098
Provision for risks and expenses	0	113.428	113.428
Tax expenses for the plus value of assets	0	72.930	72.930
<b>Liabilities - total</b>	<b>1.430.982</b>	<b>186.358</b>	<b>1.617.340</b>

Source: own processing based on the balance-sheet

### 3.4. The adjusted net assets value calculation

After reevaluating all assets and liabilities in order to determine their market value, the adjusted net assets value can be calculated. To do that we will use the subtractive method that uses the following formula:

$$\text{Adjusted net assets} = \text{Total corrected assets} - \text{Total corrected liabilities} \quad (5)$$

By summarizing the results previously obtained we get the following values (table 4):

Table 4. Calculation of adjusted net assets value

	<b>Accounting value</b>	<b>Corrections</b>	<b>Market value</b>
Non-current assets	1.377.258	447.069	1.824.327
Current assets	816.910	(104.048)	712.862
Prepaid expenses	2.914	(2.914)	0
<b>Total assets</b>	<b>2.197.082</b>	<b>340.107</b>	<b>2.537.189</b>
<b>Total liabilities</b>	<b>1.430.982</b>	<b>186.358</b>	<b>1.617.340</b>
Book value	766.100		
<b>Adjusted net assets</b>			<b>919.849</b>
Number of issued shares	36.000		
Intrinsic value of shares	21.28		
<b>Market value of shares</b>			<b>25.55</b>

Source: own processing based on the balance-sheet

The market value of shares provided by the adjusted net assets valuation method can only constitute a starting point to determine the price at which the company's shares can be traded. It is an economical value, far more meaningful for an investor than the book value which is influenced by accounting rules and policies.

#### 4. Conclusions

The adjusted net assets valuation method provides a solid estimate of the market value of a company. The asset-by-asset approach used in valuation allows for the valuator to take under consideration all factors influencing the individual value of each component of the company's patrimony. It can be argued that it is not a valuation method in itself, but rather a collection of valuation methods.

One critical aspect of the method is its incapacity to reflect the future outcome of the company's activity. It can only show a “picture” of how the company's market value looks like at valuation date. Any changes in the value influencing factors or simply the passing of time leads to the need to reevaluate the entity's assets and liabilities. Also, any investor that needs to value a business will be preoccupied by its' capacity to produce outcomes and not only by the value of its net assets. Therefore, when used to value a company, the adjusted net assets method needs to be doubled by another valuation method capable to generate forecasts of the company's activity, such as an income-based method.

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## Particularities of Profit and Loss Account Audit and the Production Process in Constructions

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### Abstract

*The activity during the process of building is strongly influenced by the particular elements that support it, by the direct and indirect building costs.*

*A well-controlled activity from the view point of execution, building site organisation, as well as ensuring the specialised human resource may lead to reaching the objectives set: finalising the building with minimum costs and a high level of the income statement.*

*The financial audit of the profit and loss account is subsequent and implies a scheduled verification after the end of the financial year and submission of yearly statements to financial administration, as a confirmation that this activity was efficient, did not result in frauds. It thus follows that there is a direct relationship between the initial control proposed at the beginning of the building project and the final verification materialised through the annual financial audit.*

**Key words:** assets, risk, control, objectives, fraud

**J.E.L. Classification:** M40, M41, M42

### 1. Introduction

The profit and loss account contains all expenses incurred during the building process and the subsequently generated income through selling the building, following the materials consumption, as well as human, of the entities specialised in building residential and non-residential constructions.

The auditor, based on the audit objectives, ensures that all income is included and all real expenses are analysed correctly and whether any extraordinary elements were identified. Most part of the control of the income and expenses accounts is ensured either by sampling the internal audit, either together with control of corresponding entries in the balance sheet (Munteanu et al,2012,p.189).

One particularity of the construction field is that of a great diversity of building objectives on the one hand, and the conditions under which they are executed, on the other hand. For this reason, intuition and experience are not sufficient in order to solve the current problems of management and organisation in execution. This shortcoming may be hedged by employing modern management and organisation models, particularly operational research models. Also, the cost risk or the market price risk, having a great materials variety, they automatically come from various markets with quality and prices that are hard to guess during projection or offering, hence the frequent overdraft of costs in constructions (Postavaru et al,2014,p.235).

An entity in the constructions field also may be confronted with the risk of adequate promotion, if done wrong the entity will suffer, its image will be blurry for the potential buyers. In the constructions field the entity must strive to improve, to develop facilities so that it is one step ahead competition and, more than anything, to satisfy the final consumer so that he pays the acquisition price.

The literature also mentions the idea of uniqueness of a building, resulting from the fact that each objective of a new building is realised on a different location: various residential areas, various industrial areas, various geographic areas, such as mountain, see etc.

Also, both the building entity and the financial auditor who is coming to verify and to confirm the profit and loss account may be confronted with the “new” risk. The time, the place, the location, the new materials, sometimes the hidden costs may incur a high level of uncertainty and the need that the financial auditor who is not also a constructor to turn to specialists in the field in order to understand the originality of the construction and for a detailed explanation of the estimate for construction works, which comprises a detailed description by expense chapters for the following expense types: materials, labour, transportation. Thus it can lead to the need for and importance of a relationship between leadership and management.

Even though leadership is similar to management, there are several differences that must be taken into account. They must be regarded as distinct and complementary activities. On the one hand, management seeks to control the complexity and to diminish uncertainty, on the other hand leadership tries to bring useful changes in the organisation. To control the complexity means to create order in the organisation, to solve the problems and to ensure continuity. Performant organisations have both performant management and performant leadership. The managers focus on the inanimate aspects of the activity (Postavaru et al,2014,p.240):

- Budgets;
- Yearly financial statements up for auditing;
- Organisational structures;
- Forecasts and sales analysis;
- Reports regarding the company’s productivity and solvability;
- The decision-making model and establishing their fulfilment criteria, starting from the labourer and master, to inspector and financial department;
- Scheduling meetings, trainings and tasking work on the building site etc.

It is also worth mentioning that during the first part of the financial audit the accounting expert or the financial auditor determines the nature and the elements of expenses, as well as the way they are recorded in the entity’s registries: manual or digital, in order to schedule and require the financial-accounting department the data needed, namely:

- End of year inventory;
- Warehouse inventory records from the 3<sup>rd</sup> class accounts;
- Estimates for construction works and their annexes with quantities necessary for executing the project;
- The recording of proceedings for the final reception of the building, if it was finished;
- Verification of the documents regarding construction structure and authorisation and urban certificate;
- Analytic balance sheets;
- Documents for authorising outputs from records, consumption notes based on documents regarding needs by execution stages;
- Annexes with approximate values and quantities consumed during each execution stage.

## **2. Audit objectives regarding the profit and loss account in entities from the construction field**

For the expenses accounts, as they are regulated through OMFP 1802/2015 : Oficial Gazzete,2015,Part 1, [online ] Available at: <http://www.cabinetexpert.ro/2015-10-14/omfp-1198-2015-modificare-omfp-1802-2014-reglementari-contabile.html> [Accessed 3 May 2016] , audit has the following objectives:

- All expenses were included in the financial statements;
- All expenses and incomes were correctly added and registered;
- The expenses and the acquisitions were real transactions and they belong to the audited entity;
- The amounts in the financial statements correspond with accounting technical instruments;
- All acquisitions and expenses are for the current financial year;

All expenses and acquisitions are compliant with accounting rules and principles (Munteanu et al,2012,p.189).

### **3. Audit proofs in the case of auditing a construction entity regarding the profit and loss account**

The auditor abstracts the test on control procedures, the list of tests on balances and accounts cash flows, of analytic procedures and details tests, with the view to take into account the fraud risks that may be incurred in relation with creditors and suppliers (Stoian et al,2001,p. 140).

Generally, the financial auditors compile spreadsheets and compare various expenses categories from human resources to raw materials and obtained incomes with previous financial year expenses. Following this analysis, the financial auditor explains the differences that may occur and plans the control activity according to the normal or abnormal variations of these indicators.

1. To begin with, the income and expenses are centralised on three components:
  - Operation activity
  - Financial activity
  - Extraordinary activity
2. A sample of bills is verified, starting from their record in primary registry, in the journal registry and sales journal; it is possible to use the correspondence between the total of the journals, the balance sheet and the D300 VAT report.
3. A sample from the profit and loss account regarding sales is verified. This may be done by selecting a reference month, with the highest sales volumes, and to check the amounts with significant impact, verify if the invoices were correctly made and registered in accounting registries and if they were paid. To this purpose, the auditor will check both the cash register and the bank statements.
4. All cash sales are examined, taking into account that starting from 01.05.2015, according to Law 70/2015 regarding enforcement of financial discipline for cash collection and payment, it is not possible to collect or pay from and to private individuals, amounts above 50.000 lei/per transaction/month ,exemple: Cash collection and payment operations between private individuals, others than collection and payments through institutions that provide payment services authorised by the National Bank of Romania, according to the law, made following the transfer of property rights on goods or rights, service provision, as well as those representing granting/payment of loans, may be done within the limit of 50.000 lei/transaction. It is forbidden to divide cash collection and payments for payments above 50.000 lei, as well as fragmenting a transaction above 50.000 lei.

To this aim the auditor crosschecks the sales lists and the receipts, cash register receipts and sales contracts authenticated by a notary.

The integrity of the collected amounts is verified and detailed tests are carried out regarding cash outflows towards and from the cashier. This way, the correspondence with bank accounts is monitored, as well as whether the cash transfer documents have the official signatures approved by the respective entity's management.

Cancellations are checked – emission of cancellation invoices has a direct impact on the profit and loss account, and the invoices and accounting notes must be authorized in order to prevent fraud in relationships with customers or hiding possible taxable income and avoidance of state taxes and leverages payments.

Also, the incoming and unsettled orders may be analysed, this being another indicator of inefficiency in increasing sales and turnover.

The financial auditor may, during the verification process, analyse the buying with VAT registers, which may provide important information for finding possible errors, including the analytic verification of acquisitions by using the analytic analysis procedure, which is also an important stage of the audit process.

The International Auditing Standard (IAS) nr. 510 regulates the fundamental procedures and principles and their application regarding opening balance in the first audit at an enterprise or when



the yearly financial statements of the previous year were audited by another auditor. In initial audit missions, the auditor must find sufficient and adequate proofing elements and to ensure that:

- The opening balance does not contain abnormalities that significantly influence the financial statements of the current financial year;
- The closing balance of the previous financial year were correct or, in exceptional cases, were retroactively adjusted;
- The accounts closing policies and the evaluation methods used were constantly applied, or they modification was correctly recorded and described in the annexed notes.

**Findings regarding the contents of a determined evaluation, of which results:**

- The erroneous calculation of data (for example, a lot that was registered twice in the inventory);
- Divergences regarding certain data evaluation (for example, the auditor estimates that the provision of a debt should have been 85% of its value and not 50%, as the enterprise considered it);
- Using an accounting procedure that does not correspond to the accounting principles (for example, the stocks are evaluated at their selling price, and not their real value, or the acquisition value of an upgrade for immobile goods was registered as expense);

The criterion of real operations implies that all material elements in the registers correspond to those physically identifiable and that all actives, liabilities, incomes or expenses reflect real values, not fictive or that do no concern the enterprise; in other words, all information presented in the financial statements must be justifiable and verifiable.

Moreover, the auditor must ensure that the format of the profit and loss account is according to the legislative framework.

#### 4. Conclusions

**Auditing was almost always associated with detecting fraud.** The following remarks must be made:

**The managers, the management, are the ones who are firstly and to the highest degree responsible for detecting frauds,** errors and misreports, as part of their management roles.

The auditor is responsible for planning, conducting and evaluating the audit, so that he can reasonably hope to find the declarations.

The auditors must pay attention to the way in which they present publicly any doubt they might have regarding the principle of continuous activity. The continuity of an enterprise also depends on the fact that the public does not know there are doubts regarding the continuity status of an enterprise (for example, if the auditor reports that the enterprise maintains its continuity if the bank will continue to finance its credit lines for the proposed investments, it is possible that the next day the bank will stop financing the enterprise).

The auditors must test the view points of the management regarding continuity and solvability. The responsibility of the management is continuous, while the opinion of the auditor is based on a situation seen at a certain moment.

The Directive 95/26/EC, adopted in June 1995 shows that the statutory auditor of a company has the duty to promptly report to the competent authorities any fact or decision regarding the respective company that might:

- **constitute a serious violation of law;**
- **affects continuous functioning;**
- **leads to the refusal to certify the accounts or to express reserve.**

To conclude, any person interested in the result of the financial audit expects that the fraud possibilities are minimised. The management of the company must take measures to organize and maintain the internal control systems that diminish the possibility of fraud. The statutory auditors must confirm in the audit report that such an internal control is in place and to establish whether it is working.

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## The Financial and Accounting Information: a Genuine Power Factor, in the Report Win - Loss of the Investment on the Capital Market

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### Abstract

*The accounting information can be assimilated and analyzed based on three aspects: semantic, syntactic and pragmatic. The semantic aspect of the information refers to its importance for the receiving element. The syntactic side highlights how the signs that compose the information remove an element of uncertainty, of determination of the phenomenon and the practical usefulness of the information for the user synthesizes the pragmatic aspect. Therefore, the economic information is customized by the fact that it expresses explanations on economic resources, production, distribution, exchange and consumption of results, being formulated based on a set of indicators that together form the "repertoire data" essential for an effective economic coordination process.*

**Key words:** shareholders, annual financial statements, government agencies

**J.E.L. classification:** G3; G32; G34

### 1. Introduction

The perception of information in specialized literature is that the information represents "a generic element of knowledge and reality representation process, as well as that of design and communication, inherent to human action on the society scale - generally - and the organizations - particularly " (Badea, 2010, p.77).

The parameters of information efficiency are determined by *the degree of subjectivity - objectivity*, by its significance for the user, by the temporary duration taken as reference, but also by the qualitative and quantitative aspects, in this respect the most expressive example being the notion of "accounting information" (Grossman, 1975, p. 214). The information is associated with *the utility value*, representing the possibility to save, this being calculated based on the difference observed between the effects of a decision promoted through and without the *cognition* component. The utility value is directly influenced by the physical and moral depreciation, becoming precedent. The information is exposed to a high degree of degradation, which is automatically included by the production and dissemination actions, resulting from the diversified and versatile interfacing with the amount of information in a certain environment.

Based on the stated general principles, regarding the functioning of the economic systems, as well as the purpose of the financial information in establishing informational links, it can be concluded that, while the information content is conditioned by the leaded system, their form is given by the management system. If in the process of obtaining the information, their form may change depending on the means and methods used, the content remains the same, independent of the structure of the system leaded and the leader (Badea, 2010, p.117).

### 2. Demand and supply of accounting information - users and informational needs

The most frequent and the most representative relationship typology in the existence of an economic entity is the one between owners and managers. This must be set alongside and understood in the context of governance methods of the company taken into discussion. If the relationship between managers and owners is a relationship that prevails in the governance of the company, it can be stated

the fact that, at international level, the accounting should meet the needs of a wide variety of users, its offers having an increasingly more social character.

The internal users are the managers, they are resorting to accounting information reflecting the exploitation, investment, finance and treasury management operations for foundation and decision-making. In this regard, they use both the information listed by the current accounting, as well as the quarterly or annual financial statements. In the context of the internationalization of the Romanian accounting, the internal users are responsible for accounting choices regarding the definition of the best accounting policies in order to reflect economic reality. Appointed by the owners to manage the wealth and the activity of an economic entity, the managers use the data provided by the financial accounting, and correlate it to the related information from management accounting (Grossman, 1975, p. 118).

The external users are the financiers of the economic entity, its trading partners, social partners, public authority as well as other external users.

The financiers are the users that, potential or actual, provide the necessary resources to the economic entity for the good development of its activities. Distinguished based on the financing modality we may encounter:

- stock financiers, if the companies are quoted on the financial market;
- banking financiers, if the companies procure their external resources by resorting to bank loans;
- the public authority, as investor in the autonomous administrations and the enterprises of national interest;
- other categories of financiers (financing by signing and developing contracts of location-financing, called finance leases).

It is equally important to remember that an economic entity with secured financial strength achieves a political balance between the recourse to financing external sources and the generation of its own sources (self-financing through the depreciation of various components of fixed asset and by assigning a representative quota from the profit for provisioning). Therefore, financiers are represented by investors, creditors (especially banking), the state and government agencies, residents, etc. As provided in the international accounting rules, the internal users of information, defined in the processes and financing operations, are the investors and the creditors.

*a. The necessity of substantiating the decisions by the managers*

In the case of some narrower economic entities, the manager coincides in most cases with the owner. In the other typologies, however, the shareholders being numerous, they can not get directly involved in the daily activity, so they delegate the leadership authority to a group of managers. The informational needs of the managers are covered primarily through reports that are not published for other categories of users. These reports are prepared, as a rule, both based on the information from the management accounting and based on the information from the financial accounting. Their nature varies from one enterprise to another, depending on the type of activity (Grossman, 1975, p. 88).

The more complex and diversified the company's business is, the more managers need additional information. Furthermore, the larger the company is, the more further away from everyday activities the manager is, which requires him to request additional information, based on which he can effectively control the work of his employees.

Also, the specific activity of the entity influences the informational needs of managers. The managers have immediate and complete access to the accounting information. They do not have to wait and they are not limited to the information disclosed in the financial statements. Although they benefit from asymmetric information in report to the other categories of users, the managers grant however, special attention to the way in which those disclosures are being perceived. Such an interest is due to the fact that the published financial statements inform third parties on the managerial capability of the leadership team. In other words, the managers use the information in the financial statements to communicate.

*b. The globalization of the financial markets and the emerging needs of investors*

In most cases, the investors (shareholders) want to measure the profitability and the risk of their investments, based on these deciding whether they maintain, increase or reduce contributions. Therefore, investors are interested in the company's ability to achieve future earnings. The notion of ability to achieve future earnings refers to the extent to which the company will adopt a strategy that aims to increase its wealth, obtaining new funds and will be able to convert, subsequently, the benefits in available funds. The investors usually reason based on cash flows, which have a tangible representation, and less depending on the net profit which, depending on the accounting conventions

does not always reflect, the actual economic wealth of the company. Their reasoning takes into account also the fact that companies use some of the profit to finance themselves. Although the shareholders seem to be the first victims of self-financing, in fact, by self financing increases the net asset and the theoretical value of the share, which may lead to an increase in the stock exchange or a free distribution of shares. In these circumstances, the shareholder gets back in capital, what he lost, in the form of dividends. Moreover, while distributed profits are subject, in most countries, to numerous cascading tax charges, decreasing the actual amount that gets to the shareholders, the pluses in stock value are taxed to a limited extent (Marianciuc, 2007, p.58).

However, the shareholders want information on the dividend because this is not just a simple cash transfer. This and its long-term growth rate circulate a rich information flow about the prospects of the company. The increase in number of "ethical" investors willing to invest in companies that respect the environment, has led to an increased demand for information regarding the company's environmental management. Thus, the investors ask for information on the costs of environmental management (legal expenses, expenses for decontamination of certain areas, expenditures for pollution control, pollution abatement, equipment investments, etc.), enabling them to calculate the debt involved in administrating it and to decide whether to purchase, sale or keep their shares.

Regarding potential investors, they want to be able to calculate the profitability rate they are entitled to claim from the company, in order to invest their funds, taking into account the risk attributed to their investment and the opportunities on the market. In order to meet the demand of measuring the amount deserved by the investors, the specialty literature recommends using the stock market capitalization. The practice has reacted quickly to this proposal, numerous financial analysis cabinets making a classification of the companies, depending on the amount of wealth created for shareholders.

The method most commonly used is the one called "market value added", which requires the restatement of certain balance sheet items, the calculation of the total value of the equity reported by the shareholders and their comparison with the exchange value of the company. A favorable difference is interpreted as an increase in the invested funds, while an unfavorable difference represents a loss of wealth.

### **3. The financial and accounting information as an instrument of power in the globalization era**

The general dictum of specialists in management, journalism, politics and economics has become in recent years the concept of globalization, this being studied by economists and sociologists worldwide. In this context, the globalization designates a wide range of economic, ideological, technological and cultural changes and interdependences (Grossman,1975, p.102). The economic changes are mainly referring to the internationalization of production, the rapid growth of capital mobility, the development of transnational corporations, as well as the deepening and intensification of global economic interdependencies. The economic representations of globalization include the spatial organization of production, the development of financial markets, the distribution of fungible consumer goods in various countries and massive population movements.

Regarding the forms of manifestation of globalization, certain areas, such as the financial market, for example, are much more amendable to globalization than others. In fact, the movement of certain symbols - like money - electronically, is much simpler than the circulation of a quantity of products. In the acceptance of the majority of the specialists in this field, the financial market has four major components: capital market, money market, insurance and mortgage markets. In a functioning and competitive market economy the capital market role is crucial. The proper functioning of the capital market is particularly important in the developing economies, in order to achieve an effective transfer of financial resources from the ones that save to those who need capital and manage to offer a higher value.

The capital market can significantly influence the quality of the investment decisions. Collecting the capital temporary available in the economy, reallocating the insufficient one and even favoring a certain sectoral reorganization inefficiently capitalized at some point, are likely to shape the place currently occupied by the stock market in the economies of many countries, and not only the most developed ones.

The financial globalization is characterized by the emergence of capital markets without borders, operating at the level of the entire planet due to the instantaneous movement of information, by eliminating exchange controls and by the homogenization of the financial instruments offered to the

ones that have savings. In these circumstances, multinational, transnational, transregional or interregional, industrial and financial enterprises can borrow or place money without limitations, where and when they want, using all the existing financial instruments (Marianciuc, 2007, p.101).

The globalization of the capital markets has resulted in the need for a homogeneous information, increasingly more obvious, the understanding and comparison of the financial and accounting information of different corporations. In these circumstances, it is highlighted the intensification of the accounts intake on the international capital markets, mainly by informing the participants on the exchange.

#### **4. The correlation of the financial - accounting reports quality with the level of economic efficiency of investments in the capital market**

The investors want to transform their cash and cash equivalents in investments and the investments in liquidities in a stable environment. SSIFs want to achieve those investments for their clients that do not involve a major loss in terms of investment value.

On the capital market, and inside the SIFs, the performance is linked to the quality of the financial accounting information, to its accuracy, to the true image of the reality of a transaction or transactions of securities.

The audit procedures of the financial accounting information target two directions: the usefulness of the financial accounting information in the investment decision on the capital market and respectively the effect of the financial - accounting information in the investment decision on the capital market. Also, the capital market performance is directly related to the quality of the decisions undertaken, based on the financial accounting information.

So, researching by audit in the field of the capital markets is current and may be considered necessary where the attention is focused mainly on the investors and the decisions taken by them. The decision of the investors involves the correlation between the current consumption and future benefits, from where emerges the need for appropriate and relevant information.

The current and potential investors continuously analyze the available alternatives, hoping to make those decisions that best meet their current and future interests (Megan, 2009, p.64). The numerous information concerning future cash flows attached to different securities, are presented in the cash flow dashboards, while the accounting synthesis documents provide relevant information on the risk associated with an investment, determined by the degree of flexibility in resource allocation. The role of the financial auditors may be determined in the recommendations of selling - buying - storage of securities and in estimating future revenues (as a basis for determining the price of the securities).

As a result, the auditor that has assessed in this way the financial and accounting information and the investment decision by means of financial analysis used as audit method, can motivate the use in the SIFs audit, respectively the performance audit in the financial investment decision and even to create a debate group in the audit (Megan, 2009, p.82). This group represented by capital market specialists, accounting experts and financial analysts, will express, based on the audit, their point of view, by collecting qualitative audit evidence and by applying auditing standards so that the information provided to be useful and indispensable to all the investors.

#### **5. The financial analysis - diagnostic procedure in taking the investment decision**

The company's financial objectives and goals can be approached from different points of view. A first approach aims to maximize profits by streamlining the financial decisions, reflected in the wealth increase of the company with a positive impact on the shareholder value of the shares and the shareholders' wealth.

From another perspective, the managerial one, these objectives and targets mainly concern achieving economic growth, financial stability and financial liquidity. The analysis as scientific system in its own right, using the information provided by accounting synthesis documents and relying on its own methodology, connects and interprets all this information in order to reach the economic and financial objectives that are targeted by the company (Spătăcean, 2010, p. 105).

The valences of the Romanian accounting system offer the possibility of financial analysis, which represent the activity of diagnosis of the state of financial performance of the company. It can be considered a management tool designed to help maintain and develop the company in an increasingly competitive environment as well as in understanding the past and present, in order to develop future strategic objectives.

The information on the performance of an enterprise, including its profitability, is necessary for a proper assessment and evaluation of possible changes in the economic resources that the company could control in the future (Spătăcean, 2010, p. 111). Of particular importance in the foreseeable future is the performance variation, being determined for this purpose the aspects related to the generation of cash flows based on existing resources. Regarding the orientation of the entity to new financial resources, the performance analysis will need to provide conclusions on the impact that would have the use of additional resources.

To the same extent, the financial analysis aims to highlight ways of achieving medium and long term financial balance, and the stages of monetary accumulation, of profitability of the activity of the economic entity.

In the case of the financial - economic situation analysis, a special role has the establishment of means to maintain financial independence and achieve flexibility in this area. The purpose of the financial analysis is represented by the drawing of the financial diagnosis of the company in order to highlight the strengths and weaknesses, namely the health or financial weakness status of the company, as well as the financial management potential. At the same time, the diagnosis analysis represents a component of the overall evaluation of the company, known as strategic analysis. The static analysis of the financial balance, based on the annual financial statements, is a traditional component of the financial analysis (Megan, 2009, p.102).

Regardless of the objectives that an economic entity lays down, their fulfillment is subject to compliance with major financial constraints, such as achieving financial balance, which generally expresses the ability of the company to align the resources and their related uses, ensuring permanent solvency and increased profitability, namely the company's ability to obtain a monetary surplus, which would allow fulfilling their commitments and ensuring its development.

Grossman builds a model of profitability on the capital market, making a separation of the investors, according to the information they have access to, in informed and uninformed investors. Thus, the yield is assumed to follow a pattern such as  $\epsilon\eta + r$ , where  $\eta$  is a random variable that can be observed at a certain cost, while  $\epsilon$  is the unobservable component. In addition, the two variables are independent and normally distributed. The observable component  $\eta$  has, as well as the price, a probability distribution, and the price of an asset and the observable component of profitability do not offer the same information on the return. Knowing the value of the price, uninformed investors can only estimate, more or less accurately, the value of  $\eta$  component, as opposed to the informed investors, that have access to this for additional charges. Therefore, the information is not transmitted equally to the two categories of investors, so the strong form of efficient market hypothesis, according to which the price is adjusted to new information, is not plausible (Grossman, 1975, p.153).

## 6. Conclusions

In an attempt to reflect the way in which investors assimilate financial information, companies have tried - due to the pressure of the economic environment and the need to provide a more accurate information, to fill in the gaps by improving the presentation of the annual financial statements, which led to the use of the financial and accounting information for forecasting the profitability of the companies, this aspect having a significant impact on investors, who analyze the accounting information as soon as they receive it. Starting from here, it has been extended the best known research activity that links the change in the price of the securities and the accounting information, leading to the development of some predictive theory sets, which caused a real revolution in the financial accounting theories. But the relativity of the predictive theories is difficult to be measured because its value depends on the ratio between correct and erroneous forecasts, leading to the elimination of some imperfect theories or theories whose validity could not be demonstrated in time.

The accounting theorists have long recognized that the accounting information system is an integral part of the control system of an organization and that the accounting information provides critical

decisions which influence and facilitate the formulation of useful information to achieve control. Financial accounting information is for external users, such as investors, employees, creditors, government or the general public and it is appointed by the summary financial statements or, shortly, the financial statements. Yearly, the administrators of the companies must draw up a set of financial statements in a standardized form, composed of: balance sheet, income statement, statement of changes in equity, cash flow statement, accounting policies and explanatory notes thereto.

For the consumers to benefit from a financial accounting diagnosis as eloquent as possible, the relevance and credibility of the financial accounting reports must be brought to the greatest possible degree of fidelity without containing elements of subjectivity and creativity in order to provide an objective picture, comprehensive and neutral, to reflect the substance of the economic events produced.

Equally, the management accounting information is for internal users, respectively for the managing economic entity. This information is non-standard, frequently non-monetary, and includes information on the unitary cost of the goods, cost behaviour relative to the volume of activity or product profitability. The reports are submitted to management at short intervals - monthly, weekly or daily - and are circumscribed to some subdivisions of the economic entity, named responsibility or profit centers.

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## Personal Bankruptcy Regulations in Central and Eastern Europe

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### Abstract

*Countries from Central and Eastern Europe are in different stages of development and implementation of personal bankruptcy legislation. Austria has regulations comparable to those in Western Europe, while the Czech Republic and Poland have recently developed regulations regarding the bankruptcy of individuals. The solutions identified in countries that have followed a similar path, namely the abandonment of a centrally planned economy and transition to a functioning market economy, which consequently led to the problem of individual bankruptcy, can also be applied selectively in Romania in the next period.*

**Key words:** personal bankruptcy, judicial procedure, amicable settlement, recovery plan.

**J.E.L. classification:** K35, G33.

### 1. Introduction

In Central and Eastern Europe there are both countries that are members of the euro zone (Austria, Slovenia, Slovakia) and countries with derogatory status (Poland, Hungary, Czech Republic, Romania etc). For our study we chose three countries, namely Austria, Czech Republic and Poland. Austria is a country with rich experience in market economy and has already regulated bankruptcy of individuals to the existing standards in North America and Western Europe, while the Czech Republic and Poland have returned to the market economy after 1990 and implemented gradually the legislation on bankruptcy of commercial companies and subsequently on bankruptcy of individuals (Sak and Schiffman, 1994, p.927). The personal bankruptcy of interest to a number of important actors in the economy, in our opinion, credit institutions are most concerned about the legal regulation of the personal bankruptcy (Avram and Avram, 2010, p.47). Basic principles of personal bankruptcy can be found in different forms in each country's legislation being influenced by a number of elements of the nature of economic, social, cultural and religious related with accounting rules (Avram and Avram, 2014, p.174)

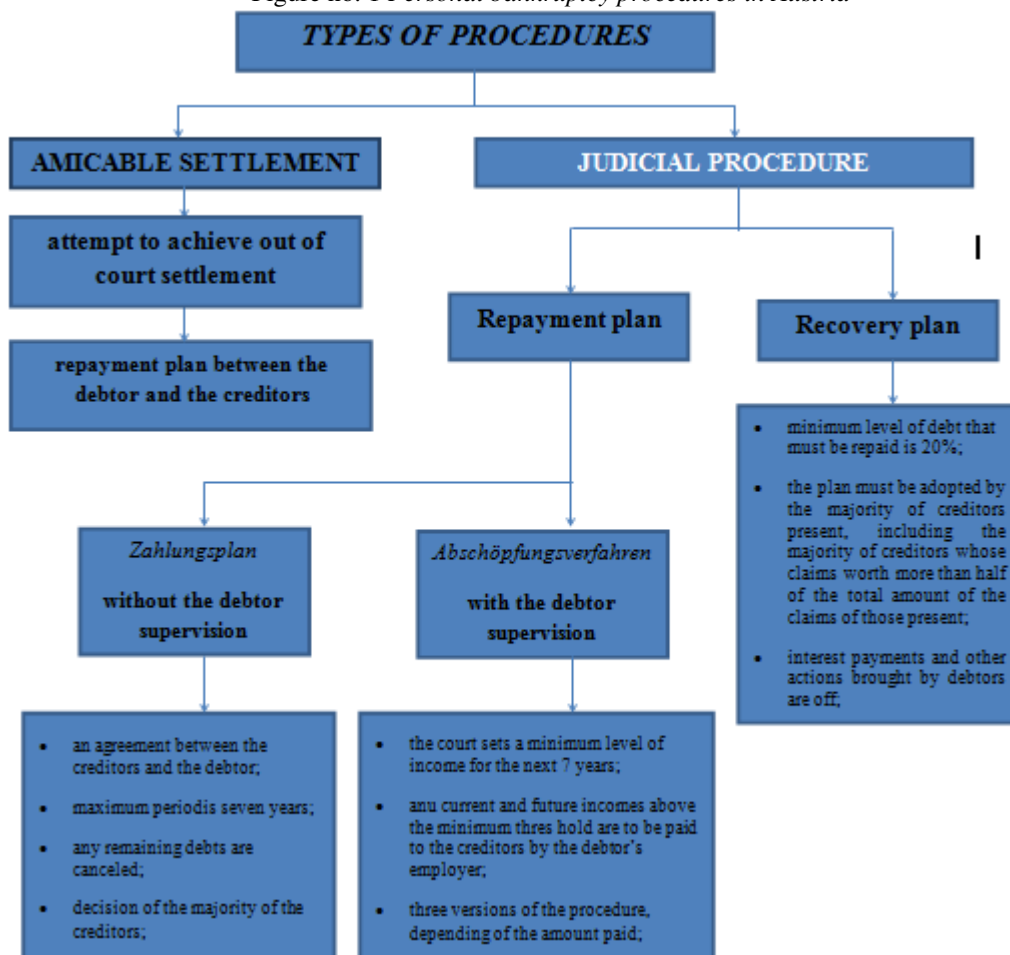
Our comparative study aims to identify how personal bankruptcy is regulated in Austria, Czech Republic and Poland.

### 2. Personal bankruptcy regulations in Austria

In Austria, personal bankruptcy is a form of judicial repayment proceedings that were established in 1995 and include a set of procedures and provisions laid down in Austria's

Bankruptcy Act. The goal of these proceedings is to give ‘righteous and motivated’ persons who have run into debt a realistic chance to start again (economically). According to a study conducted by London Economics (London Economics, 2012, p.15), the debtor may request the opening of proceedings if cannot meet payment so rover-indebtedness, but only if they acted in good faith. Subsequently, are available two ways of action, **amicable settlement** (out of court) establishing are payment plan between the debtor and creditors (less used in practice) or **judicial procedure**, which may involve debt cancellation by fulfilling are *payment plan* (with or without the supervision of the debtor) and cancellation of the debt by applying a *recovery plan* (Figure no. 1).

Figure no. 1 Personal bankruptcy procedures in Austria



Source: Authors, based on legislation in the field

In the case of *debt cancellation procedure by fulfilling a repayment plan, without the supervision of the debtor*, the creditors and the debtor are supposed to agree on there payment schedule through an agreement, for a maximum period of seven years. At the end of this process any remaining debts are canceled. Repayment plan is not reevaluated under changing conditions of the debtor, but only when payments are not done, in which case the process can be resumed and may be set a new repayment plan with creditors' agreement. This approach requires the majority of creditors. The debtor may also make voluntary payments from the subsistence level of income. All the debtor's assets are liquidate with the exception of those seen as basic, and legal expanses must be paid within3 years.

According to the *debt cancellation procedure by fulfilling a repayment plan, with the debtor supervision*, the court sets a minimum level of income for next 7 years and, any current and future incomes above the minimum threshold are to be paid to the creditors by the debtor's employer, through a trustee. Any potential future employers hold be informed of the insolvency of the debtor. Subsequently, there are three versions of this procedure, depending on the amount paid, and after each of them, the debtor must make a request to discharge the debt, otherwise the entire original

debt is restored, including interest on the outstanding amount.

Versions of the debt cancelation procedure(with the debtor supervision)		
<ul style="list-style-type: none"> <li>• If the debtor has paid enough to cover legal expenses and at least 50% of all unsecured claims, within three years, remaining debts are erased and the court can not order more;</li> </ul>	<ul style="list-style-type: none"> <li>• if the debtor has paid enough to cover legal expenses and at least 10% of all unsecured claims, within seven years, the debtor is discharged automatically and the debt is erased;</li> </ul>	<ul style="list-style-type: none"> <li>• if the debtor did not cover legal expenses and at least 10% of the debt, within seven years, the court may liberate the debtor or to extend the proceedings for another three years;</li> <li>• after this extension, 10% of the debt must be paid, otherwise the entire initial debt, including interest on the outstanding initial amount, is restored;</li> </ul>
Conditions the debtor must meet in order to be eligible		
<ul style="list-style-type: none"> <li>• it must be employed or, if unemployed to seek a job;</li> <li>• gifts and inheritances must be used to pay debt;</li> <li>• any changes related to the home address or employer should be reported to the court or the legal representative (including sickness);</li> <li>• the court shall provide, upon request, information on heritage and work relations;</li> <li>• debt – related payments are made only through a trustee to prevent preferential treatment of certain creditors.</li> </ul>		

**Debt cancellation procedure by applying a recovery plan** is applicable to businesses and individuals. The minimum level of debt that must be repaid is 20%. The plan must be adopted by the majority of creditors present, including the majority of creditors whose claims worth more than half of the total amount of the claims of those present. Interest payments and other actions brought by debtors are off. This model is rarely used because of these requirements, the acceptance rate falling from 3% in 2000 to 0.4% in 2014 (Wessing, 2015, p.1)

The Austrian system allows borrowers to open legal proceedings even if they do not have sufficient funds to cover legal costs and fees. In this regard, the debtor must have tried unsuccessfully an out of court settlement with the creditors, have made a second offer of compromise in court and to repay at least 10% of debts. In addition, *for all procedures are provided some general measures:*

- initiation of the bankruptcy procedure is published and shall be notified directly by the court;
- all assets of the debtor are recorded as belonging to the bankruptcy proceedings;
- debtor cannot dispose of his assets or engage in certain contracts without court approval;
- waiver of a process may result in the debtor’s failure to start a new recovery plan (*Sanierungsplan*) or a repayment plan (*Zahlungsplan*) for 10 years, or an absorption process for 20 years (*Abschöpfungsverfahren*);
- husbands / wives are considered responsible (s) for the debts of their wife / husband;
- parents are not responsible for their children’s debts, unless they acted as guarantor;
- the guarantor must pay what the debtor cannot pay - the principal plus interest accrued;
- the correspondences is managed by an insolvency administrator for a period of approximately 3-4 months, until are started the procedures for payment by a recovery plan.

According to *Wessing (2015)*, 8,414 bankruptcies were opened on private and formerly self-employed persons in Austria during year 2014. This is a decrease of 6.7% compared to 2013 (9,022 bankruptcies). The estimated insolvency liabilities were amounted in 2014 to EUR 1,098 million and in 2013 to EUR 1,137 million. After 20 years of practice, it is clear that the *debt settlement proceedings* provide a lot of *benefits*, which the execution proceedings were not able to provide:

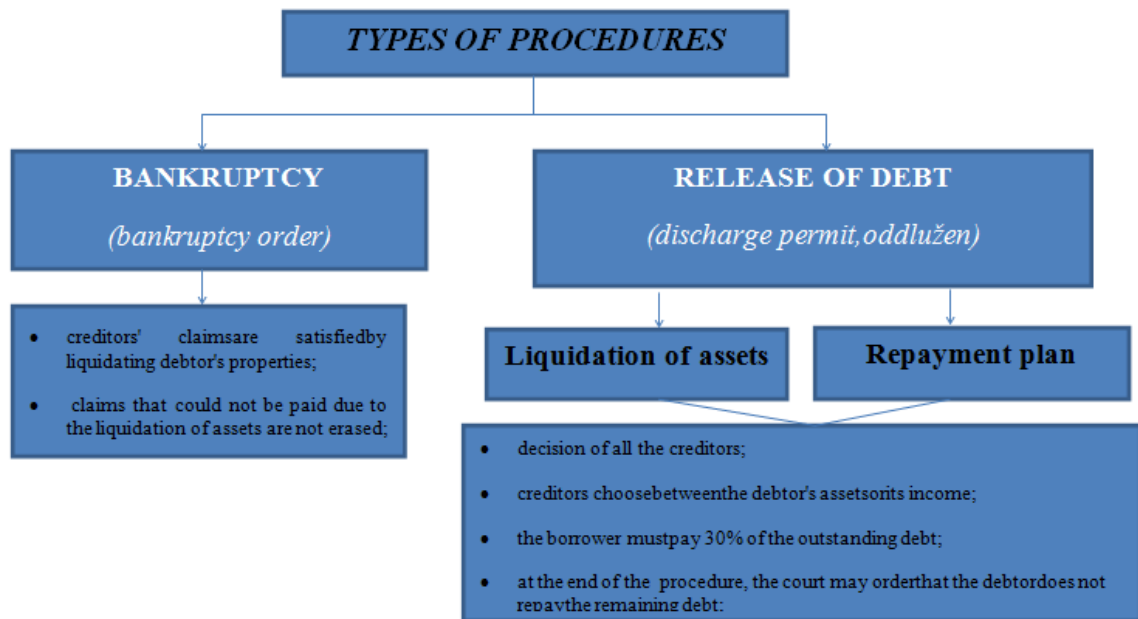
- regular payments over a longer period of time, without constant petitions or additional costs for creditors;
- effective equal treatment of creditors;

- interest stop and no further prosecution costs for the debtor;
- financial rehabilitation after a period of financial strain.

### 3. Personal bankruptcy regulations in Czech Republic

In the case of **Czech Republic**, the bankruptcy law, entitled "Act on Insolvency and Its Resolution" (Lewis, 2009, p.3), became effective on January 1, 2008. The Act introduced the idea of consumer bankruptcy law and accompanying discharge of debt into Czech law. More specifically, regarding the individuals bankruptcy, two separate procedures are regulated: **bankruptcy** and **release of debt**, as in Figure no. 2.

Figure no. 2 Personal bankruptcy procedures in Czech Republic



Source: Authors, based on legislation in the field

**The bankruptcy procedure** is the common procedure applicable to individuals and legal entities and may be triggered either by the debtor or by a creditor. *Effects of opening the proceedings* are:

- acts of management or disposal concerning the debtor's assets, included in the procedure, made by the debtor after the bankruptcy decision was taken, are not opposable to creditors;
- the act by which the debtor refuses wholly or partly a donation or inheritance is null;
- as a rule, creditors' rights regarding enforcement of claims arising after the opening of proceedings are suspended;
- unilateral acts of the debtor regarding the assets included in the procedure (e.g. delegations, orders, etc.) cease as law;
- if the debtor has entered into a loan agreement as lender, the insolvency administrator has the right to request the return of the asset even if the deadline for returning the item has not yet expired;
- the loan contracts or lease agreements that the debtor has concluded as borrower or tenant cannot be terminated by the co-contracting part for the unpaid due amounts;
- disputes related to the debtor's assets included in the proceedings shall be suspended with the exception of: criminal cases, cases involving inheritance, cases concerning the maintenance of minor children, proceedings in which the debtor acts as a single part .

As a measure of social protection for individuals, the legislation provides that, by analyzing the situation of the debtor, creditors will decide on assets that the debtor and his family will be able to keep for covering their daily needs. This decision will be taken following the request of the debtor or any member of his family.

The bankruptcy procedure is initiated by submitting a motion for insolvency to the Insolvency Court. Insolvency Court announces the commencement of the proceedings by public notice, which is published in the Insolvency Register within 2 hours. After publication of the notice, creditors may submit their applications for the recovery of claims within the period specified in the court decision-limit cannot be less than 30 days, nor more than two months. Insolvency Court appoints a judiciary administrator from a list administered by the Ministry of Justice. With the onset of the procedure, the individuals are protected from other actions filed by creditors.

Initiation of *debt relief proceedings* has basically the same *effects* as those generated by the opening of insolvency proceedings (e.g. suspend any enforcement proceedings against the debtor's assets, suspension of administration right if the court decides so, etc.). The legislation does not provide a suspension of the interest/penalties for late payment accrued prior to the initiation of the procedure, which can be satisfied during the procedure. However, any interest /penalties accrued or payable after the court decision approving the release mode, although it will be suspended, will be paid after the procedure. Regarding *the request for debt relief*, it must contain the following:

The request for debt relief	
Content	Situations for rejecting
<ul style="list-style-type: none"> <li>• indication on the debtor and the person authorized to act on its behalf;</li> <li>• list of all assets and liabilities or a statement about any modification in the list previously submitted in the insolvency proceedings;</li> <li>• proof of income in the last 3 years;</li> <li>• estimated revenue e for the next five years;</li> <li>• a proposal on debt discharge or a statement that the debtor made no such proposal;</li> <li>• unsecured creditors' agreement on release of liability if the amounts they receive as a result of the release procedure will be less than 30% of the claims held against the debtor (this agreements hall also state the minimum amounts accepted for payment using release procedure).</li> </ul>	<ul style="list-style-type: none"> <li>• it seeks an unlawful purpose;</li> <li>• amounts to be repaid to the unsecured creditors hall be less than 30% of their claims, except where these creditors have agreed to receive less;</li> <li>• in the past, the debtor was subject of other insolvency proceedings and demonstrated negligence.</li> </ul>

The release of debt can be done in the following *ways*:

- liquidation of assets (all acts of capitalization for the debtor's assets and payment of creditors are made by the insolvency administrator appointed by the court);
- repayment plan for a maximum period of five years - amount of payments provided by the repayment plan will increase proportionally with the income earned. At the end of the repayment plan, at the debtor's request, the court orders to discharge the remaining debt.

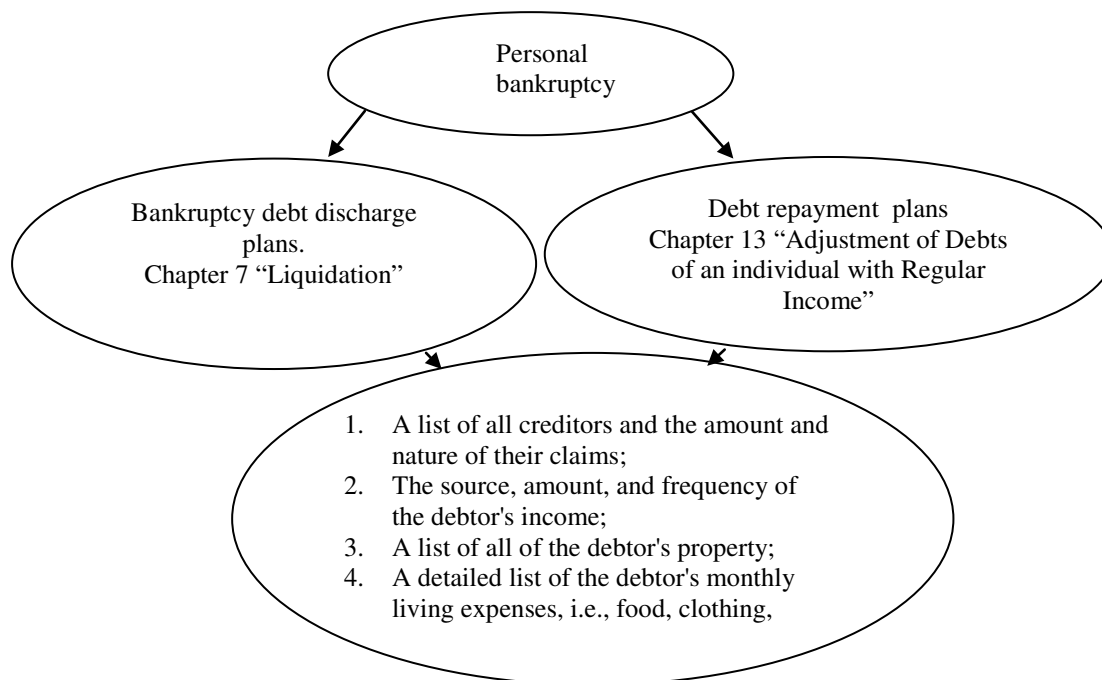
The method of debt relief is decided by all the creditors. Creditors are forced to choose between the debtor's assets or its income. As mentioned above, regardless of the method chosen, the borrower must pay 30% of the outstanding debt. After completion of the procedure, the court may order that the debtor does not repay the remaining debt. With the commencement of the proceedings, the debtor is protected by other actions that can be initiated by creditors. In the case of the repayment plan, the debtor must distribute proportionally the agreed amount to unsecured creditors, as established in the court decision, through the administrator. Insolvency practitioner will perform to the foreclosure process only at the request of a secured creditor. If the release of debt is established through liquidation, the properties acquired by the debtor after the approval of proceedings, but during the insolvency procedure, shall not be included in its heritage.

#### 4. Personal bankruptcy regulations in Poland

Polish bankruptcy proceedings were based on the 1934 law which was amended in 1990 (Szlczak 1994, p 110). In **Poland**, since April 2009 has been extended the law of bankruptcy (Bankruptcy and reorganization Law) and from individuals, the procedure being strict and limited,

individuals can benefit only once in 10 years of bankruptcy law protection.

Figure no.3 Personal bankruptcy procedures in Poland



Source: Authors, based on legislation in the field

## 5. Conclusions

The maturity and soundness of the Austrian economy are reflected eloquently in the quality of regulations on individual bankruptcy. The examples provided by the Czech Republic and Poland are proof of the authorities' courage to adopt a legislation that was, however, controversial in the ex-Communist space.

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## The Models of Personal Bankruptcy in Western Europe

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### Abstract

*Personal bankruptcy is regulated in all the countries from Western Europe. We selected a group of three countries: France, Ireland and Germany, to analyze the ways in which physical persons are put under bankruptcy law protection, while considering that implementation of the personal bankruptcy law is constantly delayed in Romania. Taking into account some comparative studies, we have found out that in all three countries is applied the principle of “consumer-friendly legislation”.*

**Key words:** personal bankruptcy, insolvency proceedings, amicable settlement, judicial settlement  
**J.E.L. classification:** K35, G33.

### 1. Introduction

The debates provoked by Law of commissioning payment and proximity of the moment when personal bankruptcy law will be applied in Romania constituted a serious impulse to undertake a comparative study on the legislation applied in Western Europe countries in the field of individual bankruptcy. We selected three countries from Western Europe, namely France, Germany and Ireland, which beyond the specific differences, manifest a special care for the economic reintegration of people affected by illiquidity or over-indebtedness. In our opinion the personal insolvency is in direct correlation with the level of financial education of the public (Avram and Avram, 2012, p.95).

### 2. Research Methodology

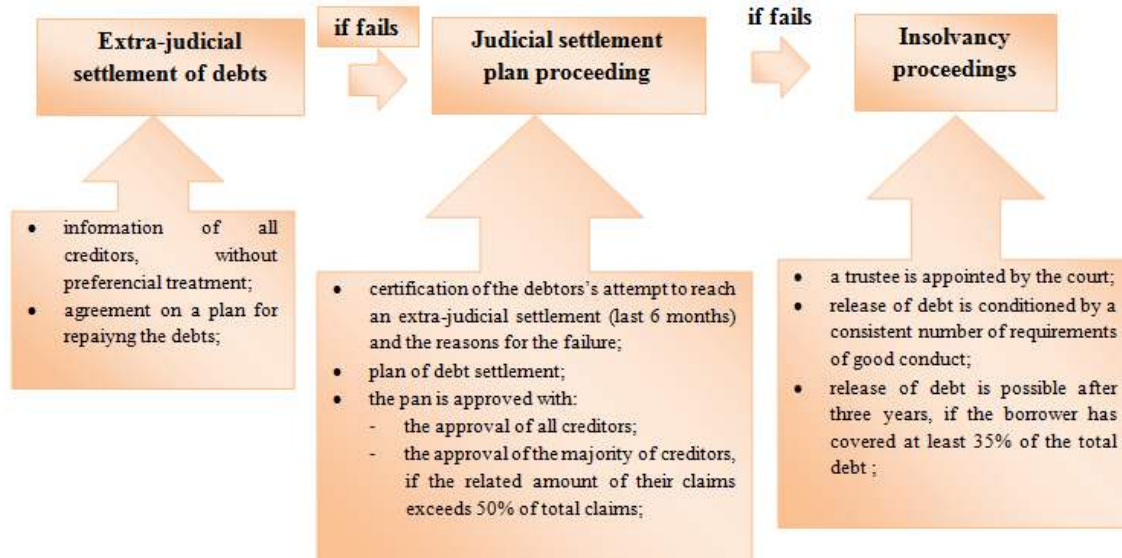
In this study we performed, in terms of methodology, a comparison between the personal bankruptcy legal frameworks applicable in some Western Europe countries. Similarities and differences identified may contribute to assimilation of the best legal practices in this field in Romania. The methodology followed equally to identify basic principles of regulations relating to the personal bankruptcy (Avram and Avram, 2014, p.172).

### 3. Personal bankruptcy regulations in Germany

**German** insolvency law is governed by a comprehensive Insolvency Code which entered into force on January 1, 1999 and has been amended from time to time (Busshardt, 2013, p.24). After

almost 20 years of discussions, hearings and negotiations the Insolvency Statute (Insolvenzordnung (InsO)) has replaced the Bankruptcy Act (Konkursordnung) and the Settlement Act (Vergleichsordnung) in the West German States and the Total Execution Act (Gesamtvollstreckungsordnung) in the East German States. The Insolvency Statute provides special insolvency proceedings for consumers. The provisions include three steps described in Figure no. 1.

Figure no. 1 Personal bankruptcy procedures in Germany



Source: Authors, based on legislation in the field

German legal system provides that, prior to the introduction in court of an insolvency declaration, the debtor must inform the creditors about the fact that it is unable to honor payments and must try to reach an agreement with them, giving a plan for repaying its debts. The debtor must contact all creditors, without giving preferential treatment to any of them. This attempt of *amicable settlement*, can be moderated by lawyers, specialized consulting agencies etc.

If the attempt of amicable settlement fails, the debtor may appeal in the court with a request to open insolvency proceedings. One of the conditions for the admissibility of the request is certification, by a lawyer or a consulting agency, of the fact that, in the last six months, the debtor has tried to reach a settlement out of court with its creditors, without a result, and also the reasons for the failure to reach such an understanding. The debtor must submit a plan of debt settlement, information on its assets and income, a list of creditors and debts incurred. The plan must include all information needed for the debt repayment. At this time, the court will decide if a second attempt to resolve the debts situation between debtors and creditors (*judicial settlement*) could be effective. If the court decides in an affirmative way on this issue, it will submit the plan to the debtor and all creditors. If all creditors agree or do not have any objections against the plan, within one month, the plan is deemed approved. If the majority of creditors approved the plan, and the related amount of their claims exceeds 50% of total claims, the court may replace the objections of other creditors with the approval of the plan. *This will not happen if:*

- the creditor who raised objections will not get a fair share relative to other creditors;
- the creditor in question is likely to be placed in an unfavorable economic position as a result of implementation of the plan for the settlement of debts in comparison with the opening of insolvency proceedings or the procedure of release from duty of the debtor.

If the procedure of judicial settlement mentioned earlier fails (most creditors oppose the plan submitted to the court), next step is to open the *insolvency proceedings* (Remmert, 2007, p.2). In this case, the court will appoint a trustee who will liquidate the debtor's assets and will distribute the proceeds to creditors. The debtor may ask in court the admission of release of debt. If the court approves the request of the debtor, it must meet a consistent number of requirements of good conduct (a considerable part of its income will be distributed to creditors and the properties may be

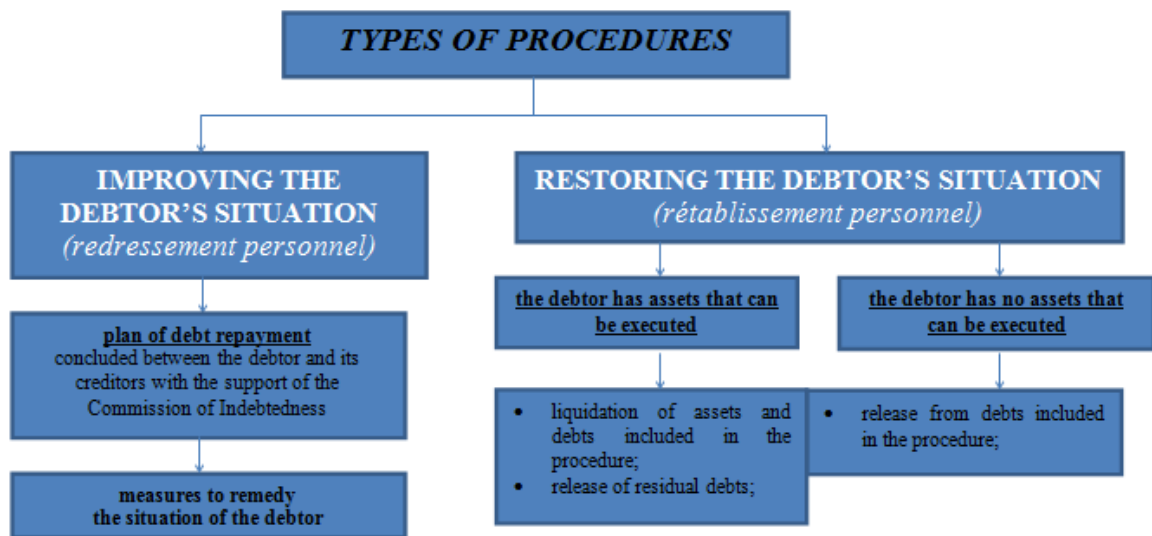


subject to seizure, the debtor must perform paid activities for being able to make the necessary payments to creditors). After a period of six years, the court decides if the debtor is discharged of debts. Since 1 July 2014, release of debt is possible even after passing a period of three years, if the borrower has covered at least 35% of the total debt due (acts as an incentive for the borrower, as well as in the interests of creditors).

#### 4. Personal bankruptcy regulations in France

**French** legal regime applicable to an individual indebtedness provides two different procedures: improving the situation of the debtor and restoring the situation of the debtor as in Figure no. 2.

Figure no. 2 Personal bankruptcy procedures in France



Source: Authors, based on legislation in the field

**Debt repayment plan** (Blazy and Chopard and Langlais and Ziane, 2011, p.6) aims to establish measures to remedy the situation of the debtor, such as the timing of payments, debt forgiveness, interest reductions or suspensions, consolidating debt or substitution of collateral. The plan may impose the fulfilling of these measures on condition that the debtor will act to facilitate or guarantee payment of debt. They can also be conditioned by the debtor refraining from committing acts that would exacerbate insolvency. If the parties involved in the negotiation procedures of Approved Plan, *do not reach an agreement*, or if, analyzing the situation of the debtor, the Commission finds that it is not possible to reconcile because the debtor's assets would not permit to cover all debts, the Commission shall notify the debtor and creditors. Commission, by analyzing the situation of the debtor, may require some or all of the following special *mandatory measures* and may propose the court some *special recommended measures*:

Mandatory measures	Recommended measures
<ul style="list-style-type: none"> <li>• rescheduling or postponement of any kind of debt for a period which may not exceed eight years;</li> <li>• attributing priority to the payments of principal;</li> <li>• amounts carried over or rescheduled to bear lower interest rates (in justified cases to a level even lower than the statutory rate);</li> <li>• suspension of the claims chargeability, other than food, for a term not exceeding 2 years.</li> </ul>	<ul style="list-style-type: none"> <li>• residual debt reduction, resulting from a housing loan (owed to credit institutions or financial institutions that financed the purchase of a building), after selling the property encumbered by mortgages. This reduction can or cannot be associated with a rescheduling of the remaining payment;</li> <li>• partial deletion of the claims against the debtor, in combination with special mandatory measures imposed by the Commission.</li> </ul>

When the implementation of the recovery plan expires, the creditors and the debtor return to the previous situation (except where certain claims were paid / deleted entirely) so, if there are more debts to be paid, they will again be subjected to the common procedure of payment.

If it considers that the financial situation of the individual concerned is compromised, the Commission will refocus the case to a *restorative procedure* of the debtor, with or without liquidation, which involves referral to court. The procedure envisages *two situations*: where the debtor has assets that can be executed, the liquidation of assets and debts included in the procedure, accompanied by the release of residual debts (except certain categories of debt) or where the debtor has no assets that can be performed, release from liabilities included in the procedure (except certain categories of debt).

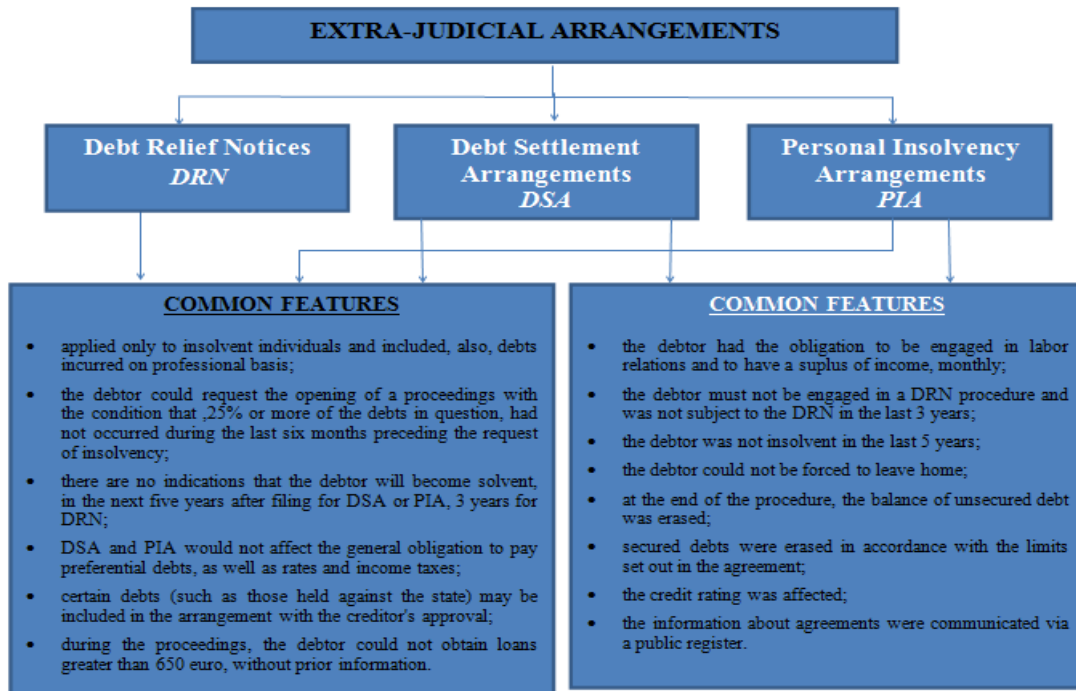
*Prior to the decision to initiate the procedure*, at the debtor's request, the Commission may request the court to suspend any enforced execution measures against the debtor. If the court pronounces the suspension, it will take effect on the same conditions mentioned in the table below. Another effect of opening the procedure is to suspend any interest and late payment penalties, suspension which will operate under the same terms mentioned in the table below. Also, after the procedure is opened, the Commission may, if appropriate, refer the matter to the court asking it to suspend any evacuation procedures of the debtor from home.

*With the opening of a restorative procedure* of the debtor's situation through liquidation, enforcement proceedings are suspended. Will also be suspended a measure of home evacuation, with the exception of evacuation measures initiated following the implementation of foreclosures. At the same time, the debtor cannot dispose of his assets without the trustee appointed by the court or, where a trustee was not appointed, without the consent of the court. If the court finds that the debtor no longer owns assets that can be executed in the process of liquidation, it may close the fund liquidation procedure for failure, in which case the borrower will benefit from the release of all residual debts.

## 5. Personal bankruptcy regulations in Ireland

In Ireland, the **personal insolvency law (2012)** reduced the period of bankruptcy proceedings from 12 to 3 years and provided three forms of extra-judicial arrangements for the redressing of the debtor, as in Figure no. 3.

Figure no. 3 Personal bankruptcy procedures in Ireland (2012)



Source: Authors, based on legislation in the field

The Debt Relief Notices (DRN) (Dorly, 2013, p.18) had as a result relief of unsecured debt up to 20,000 euro, after passing a 3 years supervision period. The debtor was eligible if: didn't hold a house in property, didn't hold goods worth more than 400€ or had a lower income of 60 Euros / month. However, the borrower could hold household items, books, tools and equipment related to his professional activity ( $\leq 6.000$  euro), personal jewelry ( $\leq 750$  euro) and a motor vehicle ( $\leq 2.000$  euro). A debtor was not eligible for DRN if, within two years prior to the insolvency request, made undervalued transactions or a preference right was given to one person, which substantially reduced the amount available to fulfill other obligations. The eligible debts were: liabilities related to credit cards, overdrafts, unsecured loans, rents, bills on utilities, phone bills, and guarantee liabilities of other persons. In this list were not included: court fines, child alimony, expenses related to marriage.

The procedure lasted three years, during which the debtor was obliged to notify the Insolvency Service about any significant changes on its financial situation or inaccuracies / omissions in completing the financial statement. If the debtor's income increased by 400 Euros or more per month, it had to deposit at least 50% of this increase to the Insolvency Service. The debtor could make repayments at least 50% of the debt, in which case the balance of the debt was cleared. At the end of 3 years, the debts were erased without affecting the rights of secured creditors to enforce collateral.

The Debt Settlement Arrangements (DSA) was applied to unguaranteed debts, regardless of their value. The debtor had to give a written statement on its financial situation to an insolvency practitioner. Subsequently, the insolvency practitioner was the one to organize the DSA procedure (including the application for insolvency required by the Insolvency Service) and to negotiate with creditors on behalf of the debtor. Insolvency Service notified the court, which acted by issuing a certificate of protection for the debtor. This certificate was valid for 70 days, extendable by another 40 days.

Creditors, holding at least 65% of the debts, could decide on DSA approval or could block it. The agreement reached by creditors was notified to the Insolvency Service and, in the next step, DSA was approved by the court and entered into force on the date of registration in the corresponding registry. By DSA, parties could agree to pay a percentage of the total debt through monthly installments. Unless there was a direct specification, payments were made equally to the creditors involved in the DSA and, it could be stipulated, that the debtor or another person, to provide collaterals.

Acting as an agreement (obligatory), DSA terms could not be changed without the consent of both parties. During the arrangement, the debtor was entitled to a reasonable standard of living, including food, clothing, education, medical assistance and a modest amount for savings. DSA was considered favorable to creditors, because it provided them the recovery of a part of their debts. In practice, 3 of 4 creditors agreed on DSA. The procedure had a period of 5 years (with the possibility of extension for another year), during which creditors could not initiate other legal proceedings. At the end of this period, the debtor was released from the debts referred to in arrangement.

The Personal Insolvency Arrangements (PIA) (Insolvency Service of Ireland (ISI), 2016, p.26) was applied both in the case of secured debt in favor of creditors (< 3 mil. Euros, or more, with the agreement of all creditors) as in the case unsecured debts (without maximum value). The debtor had to provide a financial statement and to obtain a declaration from an insolvency practitioner confirming, inter alia, that the borrower was eligible for PIA and there are indications that PIA could recover its financial position, within time 5 years. The proposal on PIA had to be approved by creditors, with secured debts or unsecured debts, representing at least 65% of total debt, the creditors representing at least 50% of the debt guaranteed, and by the creditors representing at least 50% of the unsecured debt. At the end of the procedure (within 7 years), the debtor was released from secured debts in favor of creditors within the limits specified by the agreement (so that, the value affected to a mortgage, could not be entirely deleted). All PIA agreements contained a claw back clause for any debt erased, applicable for 20 years. Thus, in the case of selling a property at a high price, some of the surplus had to be assigned to debt repayment.

The Bankruptcy (Amendment) Act 2015, which was signed into law on 25 December 2015, provides for several changes to the rules on bankruptcy. It includes the following provisions, which came into effect on 29 January 2016:

- reducing the normal duration of bankruptcy from 3 years to 1 year (up to December 2013 it was 12 years);
- returning ownership of the bankrupt person's home to them after 3 years (subject to any outstanding mortgage) unless it must be sold to pay creditors;
- reducing the maximum duration of bankruptcy payment orders from 5 years to 3 years, except in cases of non-co-operation or concealment of assets;
- extending the duration of bankruptcy in cases of non-co-operation or concealment;

## 6. Conclusions

Our research has highlighted that in France, Germany and Ireland it can be talked about the principle of "consumer-friendly legislation" and the concern for debts' recovery and return to work of the people affected by insolvency. Even if procedures are lengthy and expensive, in terms of economic system's health we face some incurred costs. If we add the authorities' efforts for the public financial education and the prudential supervision exercised by the national central banks, we understand that personal bankruptcy must be prevented and highly regulated in the situations where is necessary.

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## Analysis of Financial Intermediation in Romania

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### Abstract

*The aim of this paper is to analyze the degree of financial intermediation in Romania. At the same time it comprises an analysis of the three indicators which show the degree of financial intermediation in Romania: credits/GDP; deposits/GDP; bank assets/GDP for the period 2004-2015. We want to study the relation between the three indicators that define financial intermediation with the help of the correlation coefficient.*

**Key words:** financial intermediation, bank assets, credits, deposits, banking system

**J.E.L. classification:** G00, G210, P52.

### 1. Introduction

*Financial intermediation* holds the key role in the saving-investing process. Financial intermediation is defined as the process through which funds raised from those who want to save are made available to persons who need them for different types of investments. Therefore, financial intermediation consists of channeling available funds towards productive uses thus insuring the necessary funds for deficient units.

*Financial intermediaries* mobilize funds (financial assets) from economic agents with surplus funds (savers), by creating debts (assets) to them and they issue their own assets to those who use the funds. Deterioration in the balance of financial institutions led to deleveraging, characterized by a decline in crediting, as well as consumer spending and business investments and, as a result, the economic activity deteriorated. A weak economy and the decline in housing demand led to an increased decline rate in real estate prices, which caused yet another deterioration in the balance of financial institutions and a decrease in credit. (Frederic S. Mishkin, 2009).

Financial intermediation and financial markets influence directly the economic growth and the global economic welfare. Financial intermediation is a subcomponent of financial development.

We cannot address the issue of financial intermediation without talking about financial development first. Financial development is defined as the factors, policies, and institutions that lead to effective financial intermediation and markets, as well as deep and broad access to capital and financial services. This definition thus spans the foundational supports of a financial system, including the institutional and business environments; the financial intermediaries and markets through which efficient risk diversification and capital allocation occur; and the results of this financial intermediation process, which include the availability of, and access to capital (The Financial Development Report 2012).

First of all, an extensive financial development leads to a greater mobilization of savings and to their distribution in investment projects with the greatest level of reimbursement. This capital accumulation stimulates the economic growth.

Secondly, by allocating capital for viable investment projects and by promoting corporate governance, financial development leads to an increase in the technological innovation rate, in productivity, in economic consolidation, as well as welfare.

Recent literature suggests that the financial development is measured by these factors: the dimension, depth and access of a certain financial system, as well as the efficiency and stability of that system which includes its markets, intermediaries, range of assets and its institutions and

regulations. Xiao and Zhao in their 2011 paper (Xiao, S. and S. Zhao. 2011) advocate that: “banking sector development has significant and positive effects on firm innovation in countries with lower government ownership of banks, but insignificant and sometimes even significantly negative effects in countries with higher government ownership of banks”.

Other research (Rajan and Zingales 2001) suggests that compared to other forms of financial intermediation, established banks form close ties with the private sector, establishing a relation which would allow them to obtain more efficient information on firms and to convince them to pay off their debts in time.

Arcand, Berkes and Panizza (2012) use a different dataset and examine empirically whether there is a threshold above which financial development no longer has a positive effect on economic growth. They use total credit to the private sector as a proxy to measure financial depth. Their dataset covers the period 1960-2010. The results from the panel regressions suggest that the marginal effect of financial development on economic growth becomes negative when credit to the private sector reaches 80-100% of GDP.

## 2. Research methodology

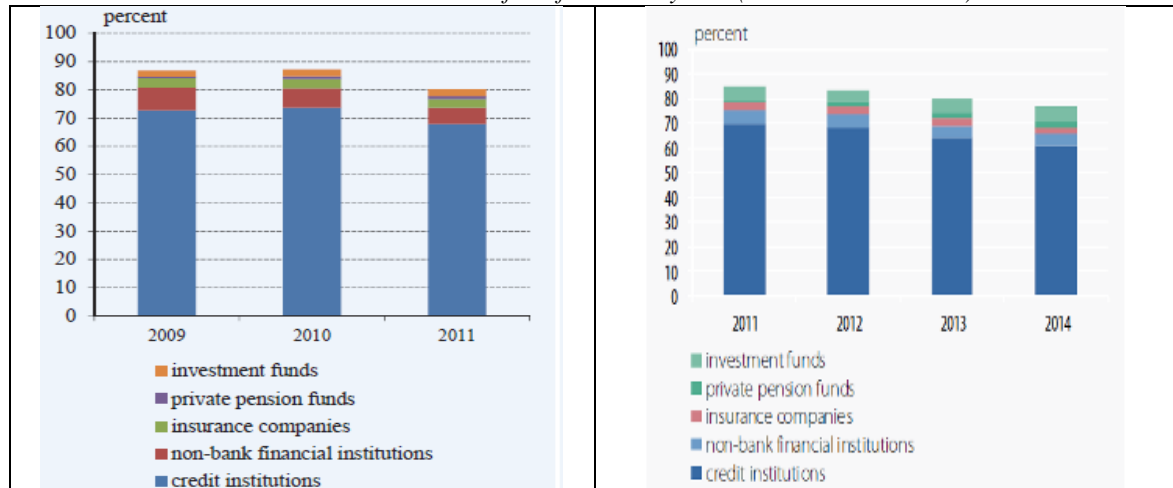
**Research methodology:** Every scientific approach ought to be implemented through adequate scientific research. Methodology is a complex word made up of two parts *methodos* and *logos* which mean “method” and “science” in Greek and in free translation “the science of the method” meaning the science of conceiving, of choosing and using the method in the process of investigating the economic phenomenon. The research methodology we employed for this article consisted of analyzing and systemizing the specialized literature in this field, the data regarding the real GDP, loans, deposits, assets are obtained from the IMF’s International Financial Statistics Database (IFS), Eurostat, The National Institute of Statistics and the National Bank of Romania. The paper concludes with analysis of the correlation between Credits, Deposits and Bank assets as dependent variables and GDP as independent variable. We want to study the relation between the three indicators that define financial intermediation with the help of the correlation coefficient. We will calculate the correlation between Credits and GDP; Deposits and GDP; Bank assets and GDP for all analyzed year (2004-2015) and we will also analyze the intensity of the relation between these indicators.

## 3. Analysis of the degree of financial intermediation in the Romanian banking system in the period 2004 – 2015

The Romanian financial system consists of:

1. Banking sector
2. Non-bank financial sector (The insurance sector; Private pension funds; Non-bank financial institutions)
3. Financial markets (Monetary market; Government securities market; Currency market; Capital market).

Chart 1: The structure of the financial system (assets share in GDP)



Source: NBR – Report on financial stability, 2012-2015

For this analysis we collected official data from: The International Financial Statistics Database (IFS), Eurostat, The National Institute of Statistics and The National Bank of Romania (NBR). The dominant share within the financial system is held by the banking sector and the exposure of credit institutions towards the financial institutions in Romania, as well as the resources they attract have continued to diminish, indicating the limitation of vulnerabilities of direct contagion within the financial system.

As we can observe in Chart 1, the structure of the financial system (as share of assets in GDP) has not modified significantly. The dominant position of credit institutions within the financial system slightly accented, while the share of non-bank institutions continued in 2014 its tendency to decline, as the previous years. There were reports of increased shares in investment funds and private pension funds.

The degree of financial intermediation is analyzed with the help of the following indicators:

1. private sector credit to GDP ratio;
2. deposits from companies and the general population to GDP ratio;
3. bank assets to GDP ratio.

The degree of financial intermediation *in nominal terms*, calculated as the ratio of bank assets to GDP (gross value), reported an increase until 2010 and afterwards we notice a slight tendency of decrease (until 66.65 % in December 2012), while the nominal growth rate of gross assets was reported ahead of the nominal GDP (see Charts 3 and 4).

The same trend was noticed when calculating in nominal terms the degree of financial intermediation based on the ratio of private sector loans to GDP (37.2% in December 2012), respectively of the deposits from companies and the general population to GDP (32.48% in December 2012).

*In real terms*, the degree of financial intermediation calculated as the ratio of deposits from companies and the general population to GDP exhibits a slight tendency of increase as compared to December 2011 (by approximately 0.11 percent), while the other two indicators previously mentioned reflect a tendency of decrease (-1.36 percent in the case of credits, and -1.89 percent in the case of assets).

The Gross Domestic Product represents the synthetic expression of the results of the economic activity produced inside the economic environment in a certain time span, irrespective of the contribution of domestic or foreign participants.

Our country's GDP has had an increasing trend over the years (Chart 3), with the exception of 2009 when it reported a decrease from the previous year. Thus, one can observe that, amid the economic and financial crisis which affected the entire world starting with the second half of 2008, the value of the GDP of Romania for 2009 reports a decrease by approximately 3% as compared to the previous time span.



**DELEVERAGING:** The European Central Bank identified a series of factors which can be held accountable for the magnitude of the vulnerabilities to the deleveraging phenomenon in host countries, as follows:

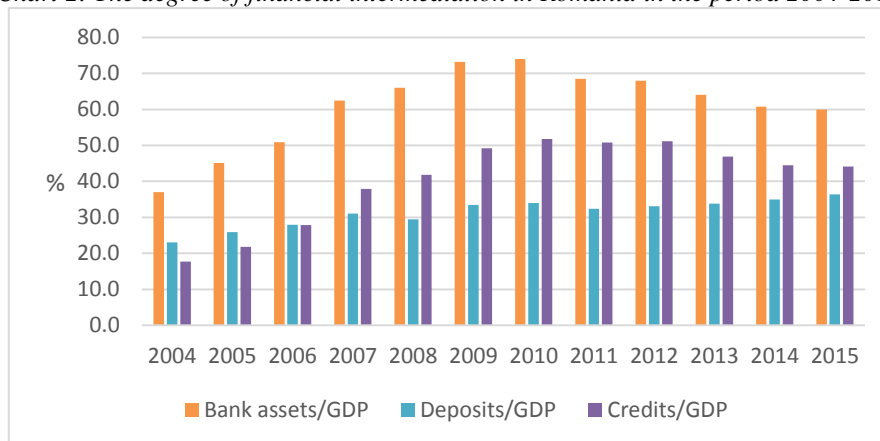
- (i) the prevalence of foreign banks within the national banking sector;
- (ii) the dependence of foreign banks on the finance coming from outside the host-country territory;
- (iii) the maturity of the financing, of the credit (short term versus long term);
- (iv) the ability of local banks or of third party foreign banks to substitute the activity of foreign banks.

In Romania, deleveraging manifested moderately, as a consequence of the following factors:

- (i) slight increase in total bank assets (see Chart 4);
- (ii) increase in capital due to new capital contributions, but also as an effect of introducing IFRS;
- (iii) moderate decrease financing sources from parent banks.

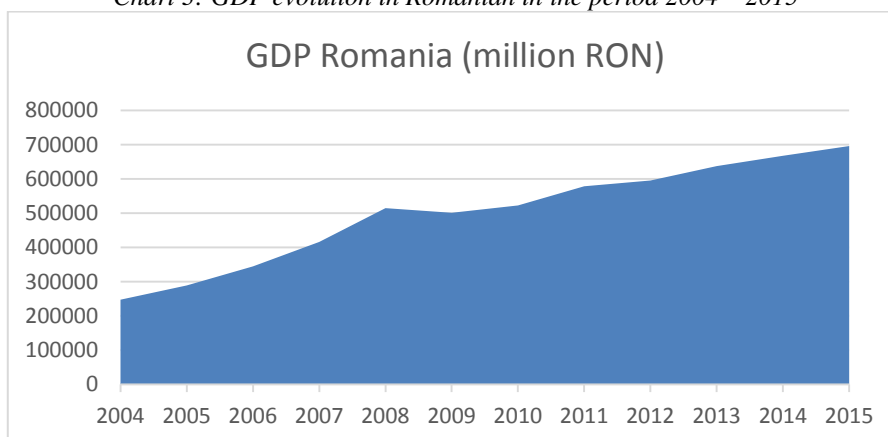
The way European banks implement deleveraging measures adopted worldwide in the context of the international financial crisis can influence negatively the financing and activity of subsidiaries in Romania.

*Chart 2: The degree of financial intermediation in Romania in the period 2004-2015.*



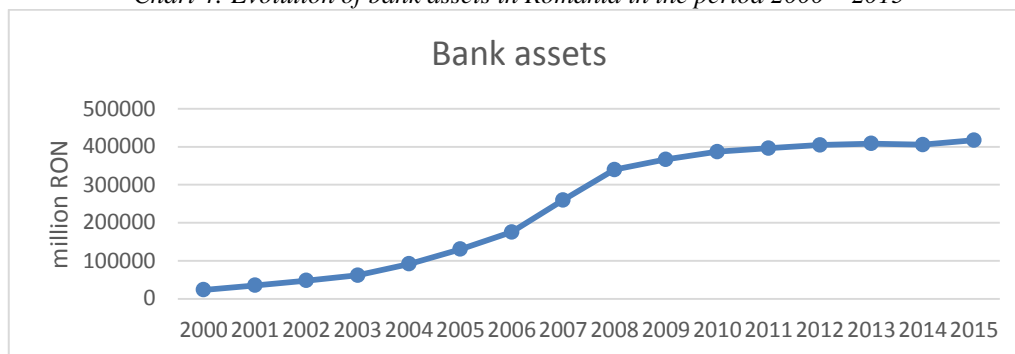
*Source: personal processing of data collected from the monthly Newsletters from 2004 to 2015 - National Bank of Romania and from the National Institute of Statistics database*

*Chart 3: GDP evolution in Romanian in the period 2004 – 2015*



*Source: Personal processing of data collected from the National Institute of Statistics*

Chart 4: Evolution of bank assets in Romania in the period 2000 – 2015



Source: Personal processing of data collected from the monthly Newsletters of the NBR 2004 - 2012.

On the background of a low economic growth, the efforts towards restructuring the operational activity can have a negative impact on the degree of financial intermediation, by resizing the territorial network and by stopping the crediting towards risky segments. The continuous decline of securities on the market is considered to be another risk factor as it leads to a significant increase in the provisions volume for credit risk after the reevaluation of securities.

The factors which influence financial intermediation in Romania are:

- euro area sovereign debt crisis which became more intense, and the risk of expansion, through contagion, of the effects of this crisis has grown;
- the risk of diminishing the crediting offer towards the real sector is amplified at a European level, while the financial deleveraging process continues. The way banking groups implement, at a European level, the deleveraging measures (adopted globally) in the context of the international financial crisis may have a negative effect on the financing and the activity of subsidiaries in Romania;
- the economic growth in countries which are partners of Romania has slowed down.

#### 4. Analysis of the correlation between GDP, Credits, Deposits and Bank assets

In this paper, the authors study the relation between the indicators that define financial intermediation with the help of the correlation coefficient. We will calculate the correlation between GDP, Bank assets, Deposits and Credits during 2004-2015 and we will also analyze the intensity of the relation between these indicators. The study is based on data from the period 2004 – 2015 in Romania. We used Pearson’s correlation coefficient. Pearson’s correlation coefficient gives indication about the magnitude of a correlation through a value that lies between -1.00 and 1.00. In the case of Romania, during 2004-2015, we would obtain the following Person’s correlation coefficient:

$$r = \frac{\sum_{i=1}^n (X_i - \bar{X})(Y_i - \bar{Y})}{\sqrt{\sum_{i=1}^n (X_i - \bar{X})^2} \sqrt{\sum_{i=1}^n (Y_i - \bar{Y})^2}} \quad (1)$$

If Person’s coefficient is negative, then there is an inverse correlation where X increases and Y decreases. If the result is positive, then there is a direct correlation where X increases and Y decreases. If the coefficient is 0, then there is no correlation. The indicator presents itself in the form of an index in order to give more sense to the comparison of tendencies in the various analyzed countries. In the Table no.1 we calculated Person’s correlation coefficient between GDP and Bank assets; between GDP and Deposits; between GDP and Credits with the help of the data collected from The World Bank, Global Financial Development Database.

Table no. 1: Correlations during 2004-2015

Correlation between GDP and Bank assets	0,960
Correlation between GDP and Deposits	0,993
Correlation between GDP and Credits	0,968

Source: personal calculations

## 5. Conclusions:

The Romanian financial system functioned adequately on the background of a still modest economic dynamic also reflected in the continuous growth of nonperforming loans, as well as despite a difficult external environment, affected by the sovereign debts crisis and the interests in the quality of balances and the financing of certain banking institutions and systems, especially in the euro area.

The changes in financial intermediation structures have extended considerably the access to financing and contributed to social welfare. The changes led to new forms of bank intermediation, including the rise of the shadow banking system and innovative products. Yet, some of the changes - associated with the attributes of concentration, interconnectedness, complexity, and opacity - have come with risks.

The degree of financial intermediation in Romania calculated as the ratio between Credits/GDP, Deposits/GDP and Assets/GDP in the period 2004-2015 reported the largest percent in 2009 and 2010, being followed then by a slight decrease.

We conclude that there is a direct correlation: between GDP and Bank assets (0,96); between GDP and Deposits (0,99); between GDP and Credits (0,96) because the correlation coefficient approaches the value 1. In all the years analyzed, the coefficient is above 0.9. The intensity of correlation is very high. If GDP increases, then Credits, Deposits and Bank assets grows.

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## Assessing the Portfolio of Bank Guarantees by Specific Indicators for Determining Risks

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### Abstract

*This paper, entitled “Assessing the portfolio of bank guarantees by using specific indicators for determining risks”, deals with the determination, measurement and management of risks and aims at assessing the quality of the portfolio of guarantees, by specific indicators for determining risks. It also analyzes the risk levels of all the activities conducted by the NFIs, quantified in terms of the following risk categories: guarantee risk, market risk, operational risk, liquidity risk, reputational and strategic risk.*

**Key words:** bank guarantees, specific indicators, assessment, risk, portfolio

**J.E.L. classification:** G20

### 1. Introduction

The assessment of the portfolio of bank guarantees was performed under the Working procedure no. 9 for determining, measuring and managing risks. Moreover, this assessment concerning the Romanian banking system, which also allowed us to analyze the risk levels of all the activities carried out by the NFIs, was conducted by means of specific indicators for determining risks. It is noteworthy that, in assessing the quality of the portfolio of guarantees, two types of indicators are used, i.e.: structural indicators and rating indicators (Dardac, N. and Moinescu, B., 2006, p. 15).

### 2. Structural and rating indicators. Analysis and interpretation

The structural indicators of granted guarantees, as shares in the balance portfolio, are presented in Table no. 1:

*Table no. 1. The structural indicators of guarantees*

INDICATOR	Det. value	Det. value	Det. value	Det. value
	31.03.2015	30.06.2015	30.09.2015	31.12.2015
I. Balance structure by the term of granting the guarantee	100%	100%	100%	100%
Share of short-term guarantees (<= 1 year)	54%	54%	55%	54%
Share of medium-term guarantees (1-5 years)	26%	26%	26%	26%
Share of long-term guarantees (> 5 years)	20%	20%	19%	20%
II. Structure of the balance of guarantees by credit type	100%	100%	100%	100%
Share of the guarantees supporting the credits for financing current activities	74%	74%	75%	75%
Share of the guarantees supporting the credits for investment	26%	26%	25%	25%
III. Structure of the balance of guarantees by the supported activity sector	100%	100%	100%	100%
Share of the guarantees granted to the commerce sector	41%	41%	43%	43%
Share of the guarantees to industry	22%	22%	22%	22%

Share of the guarantees to the service sector	18%	18%	17%	17%
Share of the guarantees to constructions	12%	11%	11%	11%
Share of the guarantees to agriculture	7%	8%	7%	7%

Source: Processing performed by the author, data from the Financial Stability Report 2015

Structural indicators are calculated specifically in order to monitor the concentration risk on various components and characteristics of the portfolio of guarantees from the balance sheet, but also in order to pursue the strategic objectives of non-banking financial institutions (Uyemura, D.G. and Deventa, D.R., 1993, p. 32). As can be seen in Table 1 above, the quarterly variation of the shares calculated on different criteria is almost unchanged. Regarding the concentration of the portfolio of guarantees, its structure could be considered as concentrated towards short-term guarantees (54%) in relation to the banking system average. There is also a concentration of the portfolio of guarantees for the credits destined to finance current activities (about 75%). The analysis of the data presented in the Financial Stability Report 2015, published by NBR, reveals that the share of the credits granted to SMEs by resident banks, per sectors of agriculture, industry and services, is relatively similar to the share of the guarantees provided in the total portfolio, while for commerce and constructions there are different concentration degrees.

Table no. 2. Rating indicators, calculated at 31 December, in order to identify and measure credit risks for the guaranteeing activity

No.	Indicator	Significance threshold	Rating	31.03.2015	30.06.2015	30.09.2015	31.12.2015	Frequency in the last four quarters
1	Share of guarantee risk	Under 2,5%	Rating 1					
		Between 2,5 and 4,5%	Rating 2	3,45%	3,43%	3,43%	3,54%	4
		Over 4,5%	Rating 3					
2	Share of depreciated guarantees	Under 4%	Rating 1					
		Between 4 and 6%	Rating 2					
		Over 6%	Rating 3	19,18%	20,81%	21,24%	21,89%	4
3	Annualized share of payments	Under 2%	Rating 1	1,27%	1,38%	1,47%	1,97%	4
		Between 2 and 4%	Rating 2					
		Over 4%	Rating 3					
4	Annualized share of payment applications	Under 2%	Rating 1					
		Between 2 and 3%	Rating 2					
		Over 3%	Rating 3	3,89%	4,22%	4,10%	3,95%	4
5	Share of payment applications settled by non-payment *	Under 20%	Rating 1					
		Between 20 and 30%	Rating 2					
		Over 30%	Rating 3	62,78%	72,20%	70,61%	72,07%	4
6	Share of group of debtors	Under 25%	Rating 1	17,84%	21,19%	19,73%	19,16%	4
		Between 25 and 35%	Rating 2					
		Over 35%	Rating 3					
7	Consumption of coverage level	Under 70%	Rating 1	44,43%	40,14%	37,19%	33,91%	4
		Between 70 and 85%	Rating 2					
		Over 85%	Rating 3					
8	Coverage by specific provisions of payments of guarantees	Over 90%	Rating 1	94,35%	94,38%	94,29%	97,10%	4
		Between 80 and 90%	Rating 2					
		Under 80%	Rating 3					
9	Annual variation in the amount of payments made for the	Under 110%	Rating 1	32,78%	44,84%	52,56%	80,01%	4
		Between 110 and 140%	Rating 2					
		Over 140%	Rating 3					

	guaranteeing activity							
10	Annual variation in payment applications	Under 120%	Rating 1	63,23%	48,38%	44,18%	46,37%	4
		Between 120 and 140%	Rating 2					
		Over 140%	Rating 3					
11	Annual variation in the balance of guarantees	Over 105%	Rating 1					
		Between 100 and 105%	Rating 2					
		Under 100%	Rating 3	86,44%	79,21%	76,09%	72,24%	4
12	Annual variation in the provision of new guarantees	Over 110%	Rating 1					
		Between 100 and 110%	Rating 2					
		Under 100%	Rating 3	40,52%	33,47%	37,21%	39,27%	4

Source: Processing performed by the author, data from the Financial Stability Report 2015

The payment applications settled by non-payment include those payment applications that were rejected, canceled, suspended and waived. The share of the payment applications settled by rejection of payment was 68.5% at 31.12.2015. The indicators in the table above have the following formulae (Chorafas, D.N., 2007, p. 22): 1) Share of guarantee risk = [value of all guarantees paid] / [value of all guarantees issued] \* 100; 2) Share of depreciated guarantees = [guarantees with depreciation index, with payment application, notice of payment or guarantees related to insolvency debtors] / [total balance of guarantees] \* 100; 3) Annualized share of payments = [annualized value of the guarantees paid in the reporting year] / [balance of the guarantees since the beginning of the year] \* 100; 4) Annualized share of payment applications = [annualized value of payment applications submitted in the reporting year] / [balance of the guarantees since the beginning of the year] \* 100; 5) Share of payment applications settled by non-payment = [value of payment applications settled by non-payment \* since the beginning of the year] / [value of all payment applications settled since the beginning of the year] \* 100; 6) Share of group of debtors = [balance of guarantees granted by groups of debtors to SMEs] / [total balance of guarantees granted based on own sources and on sources in administration] \* 100; 7) Consumption of coverage level = [balance of guarantees granted based on own sources] / [total coverage level based on own sources] \* 100; 8) Coverage by specific provisions of payments of guarantees = [balance of guarantee provisions] / [total payments - recoveries made by F.N.G.C.I.M.M. and those from FRC] \* 100; 9) Annual variation in the amount of payments made for the guaranteeing activity = [amount of payments made since the beginning of the year] / [amount of payments made in the same period of the previous year] \* 100; 10) Annual variation in payment applications = [amount of payment applications submitted since the beginning of the year] / [amount of payment applications submitted in the same period of the previous year] \* 100; 11) Annual variation in the balance of guarantees = [value of the balance of guarantees of the respective quarter] / [value of the balance of guarantees for the similar quarter of the previous year] \* 100; 12) Annual variation in the provision of new guarantees = [value of the new guarantees granted in respective quarter] / [value of the new guarantees granted in the similar quarter of the previous year] \* 100.

The analysis of the rating indicators related to credit risks reveals several important results. Regarding the share of guarantee risk, this indicator is maintained in this quarter on Rating 2, and records a value slightly higher than in the last quarter. If we compare the value of the payment applications settled (by payment, rejection, etc.) with the value of guarantees issued until 31.12.2015, we obtain a share of 5.82%. In terms of the share of depreciated guarantees, it remains at a high level (Rating 3) in this quarter, recording an insignificant increase compared to the previous quarter. The last year's developments in the balance of the portfolio of guarantees (equiv. RON), according to the depreciation indicators, is presented in Table no. 3 below:

Table no. 3. Developments in the balance of the portfolio of guarantees

Date	Payment applications	Insolvency	Payment notification	Non-depreciated	Total depreciated guarantees	Total portfolio	Share of depreciated guarantees
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01	02	03	04	05	06 = 02+03+04	07	08
31.03.2015	308,651,056	129,815,380	128,027,203	2,386,498,656	566,493,639	2,952,992,295	19,18%
30.06.2015	302,342,911	140,533,877	113,414,947	2,117,367,885	556,291,735	2,673,659,620	20,81%
30.09.2015	304,782,724	130,761,946	103,793,210	1,999,212,197	539,337,880	2,538,550,077	21,24%
31.12.2015	238,501704	144,918,144	115,463,224	1,779,392,832	498,883,072	2,278,275,904	21,89%

Source: Processing performed by the author, data from the Financial Stability Report 2015

By analyzing the data presented in the table above, we can conclude that this indicator decreased in the last four quarters largely due to the decrease in the balance of guarantees (decrease by 27.7% at 31.12.2015, compared to 31.12.2014). Concerning the annualized share of payments, it falls, for the fourth consecutive quarter, in Rating 1. This favorable development was influenced by the decrease in the amount of payments made during this period. However, we have also noticed an increase in this indicator in the last quarter due to the increase in the amount of the payments made during the analyzed period (in the fourth quarter there were performed about 44% of the total payments from the respective year). It is noteworthy that this indicator should be analyzed in (inverse) correlation with the indicator that calculates the share of the payment applications settled by non-payment of guarantees, i.e. indicator no.5. Regarding the annualized share of payment applications, in the fourth quarter of 2015, it is also situated at an alert level (rating 3). However, we should remark that it registered a positive trend in the past year. We believe that this positive development will continue in the next quarters. Therefore, this indicator is expected to leave the alert area, i.e. rating 3. These expectations are based on the fact that a significant number of banks have completed the process of clearing the accounting balances of bad loans, in conjunction with the drastic decrease in the number of the companies entering into insolvency in last year (decrease by over 50%). Concerning the share of payment applications settled by non-payment, this indicator remains at a high level in the fourth quarter of 2015, representing an important risk factor. This indicator signals that the number and value of the disputes with funding partners, triggered by the refusal to pay guarantees, may rise in the near future. On the one hand, this risk could have a negative impact by increasing the amount of payments if the disputes created will be lost, but it will also lead to a deterioration of the image on the banking market. At 31 December 2015, the value of the recorded disputes with funders, caused by the refuse to pay guarantees, was 35.1 million RON.

Table no. 4. Share of payment applications settled by non-payment

No.	Indicator	Signification threshold	Rating	31.03.2015	30.06.2015	30.09.2015	31.12.2015	Frequency in the last four quarters
5	Share of payment applications settled by non-payment	Under 20%	Rating 1					
		Between 20 and 30%	Rating 2					
		Over 30%	Rating 3	59,91%	69,63%	68,18%	71,06%	4

Source: Processing performed by the author, data from the Financial Stability Report 2015

The data on the amount of settled payment applications, by the type of the guarantee convention underlying the settled guarantee contract, and the settlement type are presented in the table below:

Table no. 5. Settled payment applications

Settlement period/ Convention type	Type of settlement (value of submitted payment applications)				No. of applications settled by rejection	No. of applications settled by payment	Total no. of applications settled by rejection and payment	% applications settled by rejection	% applications settled by payment
	Rejection	Payment	Other settlements	Total					
1	2	3	4	5=2+3+4	6	7	8=6+7	9=6/8	10=7/8
2014	54,43%	38,87%	6,71%	100%	317	259	576	55,03%	44,97%
Express	53,72%	38,27%	8,00%	100%	59	40	99	59,60%	40,40%

Coverage limit	54,87%	39,24%	5,88%	100%	258	219	477	54,09%	45,91%
<b>2015</b>	62,99%	29,39%	7,61%	100%	217	130	347	62,54%	37,46%
Express	63,01%	28,31%	8,55%	100%	30	19	49	61,22%	38,78%
Coverage limit	70,53%	37,79%	1,68%	100%	367	169	536	68,47%	31,53%

Source: Processing performed by the author, data from the Financial Stability Report 2015

The data in the above table indicate that, in terms of value, in the course of 2014, the share of the guarantees settled by payment was approximately equal both in express conventions and in coverage limit conventions. The data for 2015 for express guarantees are distorted by 2 payment applications of the beneficiary Ulerom SA, in the amount of 3.8 million RON. These applications were canceled at the request of funder BCR. In numerical terms, we notice a slight decrease in the number of the applications settled by payment as far as the express convention is concerned, in 2015, compared to 2014 (from 40.4% to 38.78%). Also, in numerical terms, it is noteworthy that the number of the applications settled by payment since the beginning of the year, from the total of settled applications, represents 35.14%. The main reasons for rejecting the payment of the guarantees issued under express conventions, signed during 2008-2013, were: lack of promissory notes or overdue promissory notes and lack of certain documents or their non-compliance with the requirements of the convention concluded, each reason having 21 and 20 occurrences. In this respect, we mention the following reasons: the documentation of the execution file was completed by the funder after more than 60 days (3 cases); unpaid guarantee commissions or late payment (3 cases); lack of proof of registration of the requests for execution (3 cases), etc.

Regarding the share of group of debtors, this indicator remains on Rating 1, its dynamics for the last quarters indicating an insignificant variation in the share of the groups of borrowers, within the balance. Concerning the consumption of coverage level, this indicator remains at a comfortable level due to the decrease in the amount of the guarantees from the balance sheet. It is noteworthy that the highest level of this indicator in the first two quarters of 2015, to a level of over 40%, is due solely to the change in the calculation of the coverage level. Thus, according to the Risk Policy approved within AGM, on 01.13.2015, the coverage level is determined as 7 times the equity, compared to multiplier 9, as represented in the past. In terms of the coverage by specific provisions of payments of guarantees, this indicator remains on Rating 1, the values of this indicator being directly related to the calculation of the risk provisions for the guaranteeing activity governed by internal rules (NM 19). Regarding the annual variation in the amount of payments made for the guaranteeing activity, the favorable dynamics of the indicator that measures the annual variation of payments should be analyzed in conjunction with the dynamics of the payment applications settled by non-payment. Thus, the significant decrease in the volume of payments was not triggered by the decrease to the same extent in credit risks; it was mainly triggered by the increase in the share of the payment applications settled by rejection of payment (Isărescu, M., 2015, p. 10).

Concerning the annual variation of payment applications, the strong downward trend of this indicator remained unchanged in the last quarter of 2015. This favorable dynamics materialized by recording four consecutive quarters on rating 1, after being at the alert level (rating 3) for several quarters in a row. This leads to the conclusion that the process of cleaning the banks' balance sheets of bad loans exceeded the maximum moment and is being finalized. In terms of the annual variation in the balance of guarantees, this indicator remains on Rating 3, highlighting the downward trend of the guaranteeing activity carried out by the National Credit Guarantee Fund for SMEs, which also manifested by a decrease in the balance of guarantees. This decrease in the balance of guarantees was influenced by many factors, such as the modification of guarantee conditions (imposed by both the measures ordered by the Court of Accounts after the control performed in 2012-2013). In addition, the application of Policy risk provisions contributed to an imbalance between the inflows and outflows of the guarantees from the portfolio. Another factor is represented by the refusal to pay the guarantees from the coverage limit conventions concluded in the period 2011-2013. Last, but not least, the decrease in the balance of guarantees was influenced by the competition on some market segments (such as the FEI products developed by banks like BCR, Raiffeisen, Unicredit etc., or Cosme products developed by Libra Bank) and the economic crisis of 2008 - 2012 (which still can be felt by a low level of loans for SMEs, amid maintaining a



perception of high credit risk at the largest banks in Romania). Concerning the annual variation in the provision of new guarantees, this indicator stands at Rating 3, recording an unfavorable dynamics in recent quarters. In this case, we believe the main causes that have contributed to the decrease in the amount of new guarantees are: the modification of guarantee conditions (in the sense of strengthening the risk analysis) for the reasons described in the preceding paragraph, the economic crisis, the declining demand for loans in the absence of viable investment projects and the funders' perception on credit risk. Despite the fact that the provision of new guarantees has dropped significantly in the period under review, we believe that this development could have a positive effect, namely the increase in the quality of the portfolio of guarantees.

### 3. Conclusions

The indicators used for assessing credit risk did not register significant changes from the previous quarter. With regard to market risk management, the structure of investments indicates a balanced distribution between bank deposits and government securities (about 60% - 40%). Moreover, there is an important diversification of financial instruments in the short term and of the financial instruments in medium term (Chorafas, D.N., 2007, p. 23). In addition, the currency risk associated with the portfolio of securities is below the materiality threshold. With regard to liquidity risk management, liquidity is rising (to 3.34 from 3.19 - the value recorded at the end of September 2015) and it is situated above the minimum liquidity indicator established by internal regulations. With regard to operational risks, only one indicator (internal audit recommendations) remained in the risk zone, in the third quarter of 2015. In terms of the reputational risk management, in the third quarter of 2015, no risk events affecting the Fund's image were reported.

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## Study on Risk Analysis and the Way of Framing the Activity of Credit Guarantee for SMEs in Prudential Requirements/ Indicators

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### Abstract

*This study deals with risk analysis and with the way of framing the activity of credit guarantee for SMEs in terms of prudential requirements/ indicators. It also tackles the ways of framing the activity of guaranteeing, financing and treasury, under prudential requirements/ indicators, within the limits laid down for Non-Banking Financial Institutions, for Guaranteeing the Credits granted to SMEs, by the National Credit Guarantee Fund for SMEs, under the Risk Policy and internal regulations (rules, procedures, operation instructions).*

**Key words:** risk analysis, credit guarantee, SME, prudential requirements, indicators

**J.E.L. classification:** G30

### 1. Introduction

The aspects related to the prudential indicators on the banking market, for the fiscal year 2015, are presented in accordance with several internal regulations, such as: "Methodological Norm no. 37 on credit risk management", "Methodological Norm no. 39 on market risk management and liquidity risk", "Methodological Norm no. 19 on the classification and provisioning of guarantees", "Working Procedure no. 14 on the identification and coding of groups of borrowers" etc. Within this study, we are going to deal with risk analysis and with framing the activity of guaranteeing, financing and treasury, under prudential requirements/ indicators. It is noteworthy that, in 2015, the Fund's activity was conducted in accordance with the prudential indicators established by the Risk Policy and by the above-mentioned risk management rules (Isărescu, M., 2015, p. 7).

### 2. Elements connected to the way of framing the activity of credit guarantee

As far as research methodology is concerned, in this paper, we used both qualitative and quantitative methods of data analysis (regarding the prudential indicators for the fiscal year 2015), such as comparative data analysis, systems analysis and descriptive analysis (Chorafas, D.N., 2007, p. 17). It is noteworthy that the data analyzed within this paper are provided by Charisma, a business intelligence software for the advanced processing and analysis of performance indicators. The main elements analyzed in connection to the way of framing the activity of credit guarantee, in terms of prudential indicators, on the banking market, for the fiscal year 2015, are as follows:

1) The balance of the guarantees granted under equity, in the amount of 2,282,911,962 RON, registered at 31.12.2015, decreased by 4.02%, compared to the balance of November 2015 (i.e. 2,378,488,000 RON). The pace of this decline was slightly higher compared to the previous month (i.e. 3.34%). In December 2015, guarantees were granted in the amount of 72,712,571 RON, registering a decrease by 29.9%, compared to the guarantees granted in November 2015, in the amount of 103,730,667 RON, while the number of the guarantees granted registered a decrease by 17.9%.

2) The exposure from the activity of credit guarantee, respectively to the clientele of financial institutions, at 31.12.2015, represented by the balance of the guarantees from the portfolio of

guarantees issued from the equity, in the amount of 2,282,911,962 RON, and falls in the coverage limit of 6,718,021,866 RON, as determined by the risk policy. Also, by monitoring the funders' use of the guarantee coverage limits based on risk classes, the exposure falls within the limits assigned to funders. Thus, the coverage limit of 6,718,021,866 RON was used in a ratio of 33.98% at 31.12.2015, considering the balance of the guarantees granted under own sources, i.e. 38.81%, if we take into account the risk exposure of 2,607,806,421 RON.

3) Regarding the quality of the portfolio of guarantees from the balance sheet, it is noteworthy that, in absolute amounts, the undervalued guarantees have decreased slightly compared to November 2015 (this decrease was triggered mainly by the decrease in the beneficiaries with payment application and in the beneficiaries with demand for payment). On the other hand, the value of the balance for insolvent debtors grew by 6.3% in December, compared to the value recorded in November 2015. Regarding the quality of the guarantees granted monthly between October and December 2015, assessed according to the credit risk categories assigned by banks, we underline the fact that approx. 98% of the grants fell in the first 3 categories (standard, in observation, substandard), the difference of about 2% of the grants classified as doubtful and loss representing extensions.

4) In terms of the exposure represented by the balance of the guarantees issued from administration sources, on 31.12.2015, the total balance of the guarantees issued from administration sources (SAPARD, EAFRD, POP, according to GEO 79/2009, Law 329/2009, GEO 20/2014 and GEO 43/2014) was 1,183,604,279 RON, decreasing by 1.85%, compared to the balance recorded in the previous month, i.e. 1,205,892,197 RON. The balance corresponding to each portfolio falls within the limits set by source categories, as presented in the report.

5) At 31.12.2015, the exposure from financing activities was of 76,600,169.49 RON (current and overdue loans, current and overdue interest, penalty interest and overdue commissions) and it was provisioned at a share of 99.55% (provisions of 76,258,053.6 RON). The exposure resulting from the guaranteeing activity, respectively to the clientele of financial institutions, reflect the framing of the exposures resulting from the guaranteeing activity at the book value cumulated at the Fund level under equity, within the maximum coverage limit (Dardac, N. and Moinescu, B., 2006, p. 45). The maximum coverage limit was set at 6,718,021,866 RON (7 times the equity of FNGCIMM). It also examines the compliance with the maximum coverage limit allocated to a funder's clientele, depending on the risk class determined in accordance with "PL 15". At 31.12.2015, the Fund's exposure to risk, regarding the guarantees granted on equity, consisted of the balance of the financial guarantees registered in the book keeping plus the amount of the payment applications rejected by the Fund, the inactive guarantees that can turn into payment of guarantees if the bank appeals against the Fund's decision, and the appeal is settled favorably by the courts or by the Fund (Uyemura, D.G. and Deventa, D.R., 1993, p. 20). Thus, at 31.12.2015, the Fund's exposure to risk was of 2,607,806,421 RON, of which 2,282,911,962 RON represented the balance of the guarantees granted under the equity, and 324,894,459 RON represented the amount of the payment applications rejected by the Fund between 2007 and 31.12.2015, registered in Charisma database.

Table no. 1a. Evolution (I) of risk exposure under the equity

Date	Balance of the guarantees granted under equity (RON)	Rejected payment applications, registered in the Charisma database (in balance) (RON)	Total risk exposure (RON)
31.10.2015	2,460,730,220	275,453,409	2,736,183,629
30.11.2015	2,378,488,000	302,165,730	2,680,653,730
31.12.2015	2,282,911,962	324,894,459	2,607,806,421

Source: Processing performed by the author, based on Charisma database

The balance of the guarantees granted under equity (2,282,911,962 RON) registered at 31.12.2015, experienced a decrease by 4.02%, compared to the balance from November 2015 (2,378,488,000 RON). The pace of the decrease was slightly higher compared to the previous month (i.e. 3.34%). The situation regarding the evolution of the balance of the guarantees granted under the equity, at 31.12.2015, compared to 30.11.2015, can be explained as follows:

Table no. 1b. Evolution (II) of risk exposure under the equity

Balance of the guarantees granted under equity at 30.11.2015 (RON)	New grants (including increases) in December 2015 (RON)	Balance outflow in December 2015 (RON)			Balance of the guarantees granted under equity at 31.12.2015 (RON)	Payment applications under analysis at 31.12.2015 (RON)
		Total	of which:			
			Settled payment applications	Expired/ paid off guarantees		
2,378,488,000	18,355,643	113,931,681	27,534,698	86,396,983	2,282,911,962	189,898,690

Source: Processing performed by the author, based on Charisma database

The decrease in the balance of December 2015, compared to November 2015, by 95.6 million RON, was determined by the outflows of guarantees from the balance, amounting to 113.9 million RON (of which the expired guarantees/ disclaims/ exchange influences amounted to 74 million RON; the decreases in the balances of guarantees triggered by the amortization of the loan guaranteed amounted to 8.9 million RON; the settlement of payment applications amounted to 27.5 million RON, and the extensions with a decrease in the balance amounted to 3.5 million RON, while the newly granted guarantees (without extensions) amounted to 17.2 million lei, and supplementations (extensions with an increased guarantee value) amounted to 1.2 million RON. In this regard, we emphasize the continuation of the descendant trend of the guarantees newly granted also in December, by the new guarantees amounting to 17.2 million RON, compared to the previous month, when there was registered an amount of 22.7 million RON.

It is noteworthy that during January-December 2015, following the analysis on the granting of guarantees, there were rejected 347 applications for guarantees from own sources, amounting to 126.55 million RON (of which 95.38 million RON under the Coverage Convention, and 31,17 million RON under the Express Convention). In December 2015, there were rejected 25 applications for guarantees, totaling 6.0 million RON under the Coverage Convention. The main reasons for rejecting the respective guarantees are due to: the poor financial performance of debtors, guarantees required for loans in progress, failure to comply with eligibility criteria, the structure of the guarantees presented, exceeding the maximum exposure.

The number of the guarantees issued under equity at 31.12.2015 was 11,658, decreasing by - 2.62%, compared to the previous month (i.e. 11,972 guarantees). Of the 11,658 guarantees, 9,760 guarantees were recorded with the value of the guarantees in the balance sheet > 0, plus 1,898 guarantees with the balance amounting to 0, representing paid and provisioned guarantees, wherefore there were initiated recovery proceedings that are not yet completed. Regarding the total balance of guarantees at 31.12.2015, the largest share was held by Unicredit (24.51%), followed by CEC Bank (11.90%), Transylvania Bank (9.78%), BRD-SG (7, 61%), Raiffeisen (6.15%) and BCR (5.06%), the remaining funders representing each less than 5% of the balance of guarantees.

In December 2015, a more important increase in the value of the balance of guarantees from the previous month was registered by CEC Bank (+5.36 million RON), Eximbank (+4.07 million RON), INTESA San Polo (+2, 05 million RON), IDEA Bank (+1.39 million RON). In contrast, the largest decreases in the balance of guarantees, compared to the previous month, were recorded by Unicredit (-33.38 million RON), Transylvania Bank (-10.21 million RON), LIBRA Bank (-10.65 million RON), BRD (-9.51 million RON). It is noteworthy that Transylvania Bank took over Volksbank (merger by absorption) on 31.12.2015. Moreover, it is noteworthy that, for analyzing, establishing and monitoring the use of the guarantee coverage limits by funders, there were used the funders' risk classes, established according to the internal assessment performed by the Fund.

Coverage limits were used as follows:

- a) at 31.12.2015, the coverage limit of 6,718,021,866 RON was used in a ratio of 33.98%, considering the balance of the guarantees granted under own sources, of which the largest share of the coverage limit, i.e. 17.46%, belongs to the financial institutions from the risk category C (Unicredit, CEC, Libra Bank, Alpha, Bancpost, OTP, CreditEurope, Romanian Bank) and 8.28% of the coverage limit belongs to the financial institutions from the risk category B (BRD, Transylvania, BCR, Procredit Bank).
- b)

Table no. 2. The distribution of the balances of guarantees from own sources: evolution

<b>RISK CLASS/ VALUE</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>E-</b>	<b>TOTAL RON</b>
31.12.2015	154,168,483	556,639,867	1,173,625,664	260,550,424	104,674,969	33,252,555	<b>2,282,911,962</b>
30.11.2015	156,732,766	470,678,162	1,333,215,530	273,166,618	110,894,233	33,800,690	<b>2,378,488,000</b>
<b>NO. OF FUNDERS</b>							<b>TOTAL NO</b>
31.12.2015	2	5	9	7	4	4	<b>31</b>
30.11.2015	2	5	9	8	4	4	<b>32</b>

Source: Processing performed by the author, based on Charisma database

It is noteworthy that the risk class C has the highest concentration of the balance of guarantees (approximately 51.4%) registered by funders on 31 December 2015, with a few changes compared to the previous month, following the quarterly assessment of funders, depending on payment shares. At 31.12.2015, the next funders recorded a payment share above the average payment share of 1.97%, being downgraded as follows: Idea Bank (formerly RIB) registered a payment share of 11.18% and, according to PL 15, fell in risk class E; ING Bank - 8.65% and, according to PL 15, migrated from risk class D to risk class E; Romanian Bank - 6.65% and, under PL 15, migrated from risk class B to risk class C; Credit Agricole recorded a share of 6.39%, and under PL 15, migrated from risk class E to risk class D. BCR returned to risk class B; this explains the increase in the concentration of the balance of guarantees, compared to the previous month. In the first three risk categories of Funders (A-C) there is 82.5% of the balance of guarantees issued by the Fund.

Table no. 3. Evolution of the use of the coverage level according to the balance of guarantees and risk exposure:

<b>Date</b>	<b>The balance of the guarantees granted under own sources (RON)</b>	<b>Total risk exposure (RON)</b>	<b>Coverage level (RON)</b>	<b>The share of the use of the coverage level (%) according to the balance of guarantees</b>	<b>The share of the use of the coverage level (%) according to risk exposure</b>
31.10.2015	2,460,730,220	2,736,183,629	6,825,866,543	36,05%	40,09%
30.11.2015	2,378,488,000	2,680,653,730	6,826,036,426	34,85%	39,27%
31.12.2015	2,282,911,962	2,607,806,421	6,718,021,866	33,98%	38,81%

Source: Processing performed by the author, based on Charisma database

The decrease in the coverage level, in December 2015, compared to November 2015, was triggered by modest decreases in equity value, from 1,017,604,660.8 RON to 991,863,628.47 RON, triggered by the decrease in the net interim profit recorded in December, while the net financing balance decreased slightly (the non-provisioned financing from Helco Leasing decreased from 344,846.1 RON in November 2015 to 342,115.89 RON in December 2015). Table 4 below presents some statistical data on to the first 10 funders, related the value of the balance of guarantees at 31.12.2015 (cumulatively, they represent 80.1% of the balance of guarantees):

Table no. 4. Top 10 Funders

<b>Bank</b>	<b>The balance of guarantees at 31.12.2015 (RON)</b>	<b>Guarantees granted (cumulated 12 months 2015) (RON)</b>	<b>The balance of guarantees at 31.12.2014 (RON)</b>	<b>Payment applications settled (cumulated 12 months 2015) RON</b>	<b>Types of settlement of payment applications</b>			<b>Amount of rejected guarantees (cumulated 12 months 2015) RON</b>	<b>Share of the refusals to pay guarantees</b>
					<b>Approved payment applications (RON)</b>	<b>Rejected payment applications (RON)</b>	<b>Other types of settlement (RON)</b>		
UNICREDIT	559,535,619	418,474,270	762,799,671	43,234,397	9,292,558	33,849,959	91,879	14,077,532	78,3%
CEC	271,692,906	94,921,133	345,193,930	41,459,380	9,173,064	32,198,530	87,786	27,309,708	77,7%
TRANSILVANIA	223,174,405	146,897,469	355,887,280	18,681,761	7,597,157	10,357,170	727,434	13,263,322	55,4%

BRD-GSG	173,836,962	106,345,427	299,532,802	18,496,909	2,617,224	15,796,056	83,630	7,484,477	85,4%
RAIFFEISEN	140,416,595	142,114,756	137,986,809	1,516,790	262,362	1,237,764	16,665	6,088,745	81,6%
BCR	115,454,080	57,269,704	176,736,255	20,632,488	4,164,763	12,125,758	4,341,967	12,009,035	58,8%
LIBRA	99,143,536	96,470,963	165,081,096	10,210,948	7,632,018	2,578,930	0	5,863,538	25,3%
ALPHA	96,137,097	76,617,866	84,181,107	292,295	0	292,295	0	11,219,100	100,0%
CARPATICA	76,109,282	30,690,198	95,830,455	269,464	0	269,464	0	6,708,652	100,0%
BANCPOST	73,850,869	62,183,210	73,257,293	251,974	0	251,974	0	3,187,561	100,0%
<b>TOTAL</b>	<b>1,829,351,350</b>	<b>1,231,984,996</b>	<b>2,496,486,698</b>	<b>155,046,408</b>	<b>40,739,146</b>	<b>108,957,901</b>	<b>5,349,361</b>	<b>107,211,668</b>	<b>70,3%</b>

Source: Processing performed by the author, based on Charisma database

The top 10 funders did not change in December 2015, compared to November 2015. From the guarantee applications amounting to 1,339,196,664 RON, made by the 10 funders between January and December 2015, the grants represented 92%, the rejection share being 8.0%. Regarding the ways for settling the payment applications, 26.3% were settled by payment and 70.3% were rejected. Table 4 above shows that funder CEC Bank is the leader in terms of the rejections of guarantee applications (with 26.3% of the total rejections of guarantee applications and with 22.3% of the total amount of the guarantee applications submitted to the Guarantee Fund). The share of the resolutions by refusal of payment, higher than 80%, were registered in relation to Alpha Bank (100% of the total payment applications settled in favor of Alpha Bank were refused payment), Carpatica (100%), BANCPOST (100%), BRD-GSG (85.4%), Raiffeisen (81.6%). In top 10 funders, the highest share of the resolutions by approval of payment was recorded in relation to Libra Bank (74.7% of total amount of the payment applications settled in favor of Libra Bank).

Table 4 reveals that Raiffeisen and Alpha are the only funders in top 10 funders whose balance of guarantees, at 31.12.2015, was higher than the balance of guarantees at the end of 2014 (Alpha with an increase by 11.9% and Raiffeisen with an increase by 2.4%). The highest share of rejections was recorded in relation to Nexte Bank (41.4%) and ING Bank (32.4%), while at the opposite pole stands Eximbank, Garanti Bank, Intesa, Volksbank, Banca Romaneasca, whose rejection share is 0. Regarding the rejected payment applications, it is noteworthy that the following funders recorded a share of 100%: Carpatica, Alpha Bank, Bancpost, Small Finance. In December 2015, guarantees were granted in the amount of 72,712,571 RON, registering a decrease by 29.9%, compared to the guarantees granted in November 2015, in the amount of 103,730,667 RON, while the number of the guarantees granted registered a decrease by 17.9%. It is also noteworthy that top 10 grants, in terms of the amounts registered in December 2015, changed compared to the previous month, OTP Bank being replaced by Idea Bank. The largest grants were in favor of the following funders.

Table no. 5. Top 10 Grants

No.	Funder	Grants in December 2015		Grants in November 2015	
		No.	value (RON)	No.	value (RON)
1	UNICREDIT BANK SA	76	18,498,616	103	32,450,844
2	BANCA TRANSILVANIA SA	38	7,403,586	50	12,328,724
3	BRD - GROUPE SOCIETE GENERALE SA	16	6,758,116	8	1,029,634
4	LIBRA INTERNET BANK S.A.	10	6,252,850	8	4,546,400
5	RAIFFEISEN BANK SA	35	5,275,401	41	10,908,214
6	CEC BANK SA	17	5,148,306	14	6,486,103
7	BANCPOST SA	36	4,726,400	37	3,958,091
8	ALPHA BANK ROMANIA SA	32	4,583,307	37	5,763,090
9	BCR	19	3,256,811	19	4,317,780
10	IDEA BANK	3	2,455,400	1	160,000
	<i>Top 10 funders - grants</i>	<b>282</b>	<b>64,358,793</b>	<b>318</b>	<b>81,948,881</b>

<b>Total grants</b>	<b>302</b>	<b>72,712,571</b>	<b>368</b>	<b>103,730,667</b>
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Source: Processing performed by the author, based on the Charisma database

The amount of grants rose in December 2015, compared to November 2015, in relation to BRD-GSG, IDEA BANK and Libra Bank, while the other banks registered a decrease (Unicredit, BCR, Raiffeisen Bank, CEC Bank, Alpha Bank, Bancpost). In terms of the above presented issues, it is noteworthy that were observed the maximum exposure limits established by the funder. On 31.12.2015, the exposures from the guarantee activity, respectively to the clientele of financial institutions, fell within the maximum guarantee coverage level of 6,718,021,866 RON.

### 3. Conclusion

According to the analysis detailed above, we conclude the following:

- At 31.12.2015, the activity of the National credit guarantee fund for SMEs respected the prudential indicators established by the Risk Policy and by risk management rules.
- There were respected the established maximum exposure limits established by the funder.
- At 31.12.2015, the Fund's aggregate exposure reported to the NBR, i.e. the value of all net exposures from the balance sheet assets and from the off-balance sheet items, calculated under the "NBR Regulation no. 20 of 2009 on non-bank financial institutions ", as supplemented and amended, was 875,228,297.35, representing 62.77% of its own funds, falling within the applicable limit of 1,500%; moreover, in this respect, we noticed a nominal decline, compared to the value of 1,023,557,674.66 RON, from 30.09.2015, when it represented 73.26% of own funds.

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## Techniques Applied for Accounting of Revenues with Deferred Payments

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### Abstract

*In accounting of the entities it is not always clear difference between income and gains. Gains arising from transactions that are associated with the operations that are not ordinary and that can sometimes be significant. For example, the headquarters of a company in which it operates can be sold later to realize a profit from the sale. An investment company can own because they can generate revenue through sales. When properties are sold, the resulting gain will be included in the total turnover. Such a society will include properties held in current assets category. Normally, other business records and property and property held any gain from their sale will be reflected in an account that is not part of the turnover. The paper describes specific aspects of accounting of revenues from sales with deferred payments.*

**Key words:** revenue, deferred payments, fair value.

**J.E.L. classification:** M41, G32

### 1. Introduction

Often, cash is not charged immediately when a transaction occurs generating income. More likely it is that cash to be received shortly thereafter, the delay being dependent on commercial terms practiced in society and industry (IASB, 2014a, p.4) . In such circumstances, by expanding commercial terms, the buyer's obligation need not be reduced because the effect is insignificant. If, however, the customer was offered an extended period without paying interest to settle the obligation (longer than normal commercial terms), the effect is likely to be significant, in which case the customer requirement will be reduced. As the company has cash available for their own use, cash payments that will be made in the future is worth less at the time of sale and therefore must be evaluated properly.

This paper aims to present some practical aspects concerning the calculation of revenues from sales with deferred payments.

### 2. Sales with deferred payments

Establishing a customer payment due date is normally easy to do. However, there are cases less clear. For example, an enterprise may decide to grant his client a period of greater credit than normally practiced (which for example can be 30 days). In this case the enterprise will have to update the value of future cash flows. The problem is to decide what interest rate is used in this update. In International Financial Reporting Standards are two methods. Entity must choose the one that is easier to determine (KMPG, 2014, p.5).

In most cases, the means of payment in the form of cash or cash equivalents, in which case the amount of revenue is the amount of cash or cash equivalents received or to be received. The following situations should be treated separately.

If the inflow of cash or cash equivalents is deferred (eg when granting a loan provider on a longer period), the fair value of the means of payment may be lower than the cash received or receivable, because this case the final amount to be collected includes a financing element. The



difference between the fair value and the nominal amount of the means of payment is recognized as interest income (IASB, 2014b, p.12).

**Example (Author processing)**

Company A1 provides to Company A2 an equipment for which it is established that the payment period is 12 months from the date of delivery (ie, supplier credit is granted for 12 months). In these circumstances, the equipment price is fixed at 11,000 monetary units (MU). By default, this price includes a financing element (for the period of 12 months).

For this transaction the fair value of the means of payment is obtained by updating subsequent cash receipts using an interest rate that is most commonly obtained by dividing the interest reference market for financing similar or interest rate with which the updating value nominal yield value that the asset would have been sold payment on the spot.

Thus, in our example, if the interest rate financing MU market would be 10% per annum, the fair value of the means of payment would amount placed today this interest rate would result in 12 months 11,000 MU (capital and interest). This amount is obtained by multiplying by a factor of 11,000 MU update 0.90909.

Equipment price = 11,000 MU  
 The fair value = 11,000 x 0.90909 = 10,000 MU  
 Interest = 11,000-10,000 = 1,000 MU  
 Accounting entry will be:

*Table no. 1 Sales on credit vendor*

Debit	Credit	Amount –MU-
Customers	%	11,000
	Revenue from sale of finished products	10,000
	Interest income	1,000

Source : Author processing

**3. Specific issues regarding the evaluation of revenues from sales with deferred payments**

One of the important aspects about recognition of revenues from sales with deferred payments is the allocation of income resulting from transactions that take place over several financial years, to avoid simplistic treatment of recognition between the money was collected. In this respect use is made of two fundamental principles: the principle of accrual which requires linking costs with revenues appropriate and prudence in which profits are not reflected in advance, while loss provisions are recorded as soon as the losses are foreseen (PWC, 2014, p.7).

The most widely used time recognition of income upon sale is being considered at the moment that can be identified more precisely during the sale procedure. In fact, it must set the time at which were transferred significant risks and rewards and have removed most of the elements of uncertainty related to the realization of the transaction (Nicolae, 2010, p.299).

In some cases goods are sold but keeping the title to them what was done to collect the amount due from the buyer. In such circumstances, if it is proved that a seller has transferred substantially all the risks and benefits, the transaction can be treated as a sale and therefore the related income recognized (Nicolae, 2015, p.127).

Suppose that a company organizes a reception for which you must buy a certain quantity of wine but without knowing exactly how it will consume. The company will buy wine through a contract that can return leftover wine. When you register a seller of wine this income?

Revenue recognition must be made upon delivery of goods only if their value can be reasonably estimated (IASB, 2011, p. 16). If this estimate can not be made, then revenue must be recognized when received belongings.

Another example is a company that sells products through mail order, where the customer has the right to return the goods within 14 days. If future income can be estimated reliably, then the recognition will take place when the goods are delivered. Of the total recognized income will decrease one percent. This procedure is similar to the provision for bad debt recognition, where a company can estimate a value for these customers based on the experience of previous years.

Similarly, the company discussed can estimate the percentage of goods that are expected to be returned.

#### 4. Case study on the accounting of revenues with deferred payments

We have the following information available (Author processing) :

On 1 January of financial year N the total price of goods sold 26,000,000 MU:

- 5,000,000 MU at the delivery date,
- 3 increments 7,000,000 MU collectible dates: 31.12.N, N+1 and N+2 .

It is estimated that the company-client market could get a credit equivalent to a variable interest rate:

- Financial year N : 12% interest,
- Financial year N+1 : 10.5% interest,
- Financial year N+2 : 8% interest.

The fair value =  $5,000,000 + 7,000,000/1.12 + 7,000,000/ 1.12 \times 1.105 + 7,000,000 / 1.12 \times 1.105 \times 1.08 = 22,143,246$  MU

Total interest =  $26,000,000 - 22,143,246 = 3,856,754$  MU

Table no. 2 Total invoiced

Debit	Credit	Amount –MU-
Customers	%	26,000,000
	Revenue from sale of finished products	22,143,246
	Income in advance	3,856,754

Source : Author processing

Table no. 3 Cash advance

Debit	Credit	Amount –MU-
Balances with banks	Customers	5,000,000

Source : Author processing

Interest on financial year N =  $22,143,246 - 5,000,000 = 17,143,246 \times 12\% = 2,057,190$  MU

Table no. 4 Registration on current interest income in the financial year N

Debit	Credit	Amount –MU-
Income in advance	Interest income	2,057,190

Source : Author processing

Table no. 5 Collection of rate 1

Debit	Credit	Amount –MU-
Balances with banks	Customers	7,000,000

Source : Author processing

Interest on financial year N+1 =  $12,200,436 \times 10.5\% = 1,281,046$  MU

Table no. 6 Registration on current interest income in the financial year N+1

Debit	Credit	Amount –MU-
Income in advance	Interest income	1,281,046

Source : Author processing

Table no. 7 Collection of rate 2

Debit	Credit	Amount –MU-
Balances with banks	Customers	7,000,000

Source : Author processing

Interest on financial year N+2 =  $6,481,482 \times 8\% = 518,518$  MU

Table no. 8 Registration on current interest income income in the financial year N+2

Debit	Credit	Amount –MU-
Income in advance	Interest income	518,518

Source : Author processing

Table no. 9 Collection of rate 3

Debit	Credit	Amount –MU-
Balances with banks	Customers	7,000,000

Source : Author processing

#### 4. Conclusion

Accounting for revenues from sales with deferred payments may lead to a different size of revenues recognized in the statement of comprehensive income as compared to the accounting treatment required by the tax code. We believe that conservative accounting treatment required by the tax code may be advantageous for recognizing revenue under uncertainty generated by developments in the general economic environment.

Rate (or rates) should be a rate (or some installments) before tax that reflects current market assessments on:

-the time value of money; and

-risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Sales in installments sellers may represent an interesting alternative for the purchaser such as supplier allows a cash payment spread over a period of time in the future. For vendor it is necessary that the selling price is higher to protect from loss of value - money generated for inflation.

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## Analysis of Local Taxes in the European Union

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### Abstract

*The fiscal system can be used as a tool for economic life regulation, for the state intervention in the economy in order to eliminate the imbalances in different periods of economic life. Moreover, the relation between taxation and the level of economy development is a conditioning relation: a stable and developed economy, always prove a favorable environment for a fiscal relaxation.*

**Key words:** *fiscality, duties, fees, taxes*

**JEL Classification:** *H70, H71*

### 1. Introduction

Taxes are a form of removal of a part of the income and / or individuals and companies fortune, at the disposal of state, in order to pay the public spending. This removal is mandatory and permanently (non-refundable and without counterperformance). The mandatory nature of the tax must be understood that their payment to the state is a task to all individuals and / or legal persons who derives income from a particular source, or possess a certain kind of wealth, which, according to law, owe a tax.

Taxes and fees are increasingly important component of economic life, through which the state obtain financial resources, necessary to cover public expenditures, whose realization the performance of its functions depends on (Inceu, Lazar, and Moldovan , 2009).

All direct and indirect taxes contribute to the decrease of the life level of the population, but in different ways. Thus, while direct taxes lead to lower nominal incomes of different social categories, indirect taxes shrinks the purchasing power (Mara, 2010).

### 2. Analysis of the wealth tax in the European Union

#### ***Austria***

##### *Building and land tax*

It is applied a 0.2% share for the estimated value of the estate, the share can be multiplied by a coefficient that can exceed 500%.

#### ***Bulgaria***

##### *Building and land tax*

It is applied a 0.15% share for the sale value.

##### *Tax on conveyance*

The amount of tax is determined in accordance with engine output, adjusted by a factor depending on the year of manufacture.

### **Denmark**

#### *Building and land tax*

Denmark collects more taxes by local communities, for the possession of a property:

- A tax on land perceived by each region, amounting to 1%;
- A municipal tax on land ranging from 0.6 to 2.4%;
- For buildings that are used for offices, hotels, factories or workshops, it is due a municipal tax of up to 1% of the property.

#### *Tax on conveyance*

The tax is calculated based on fuel consumption and mass.

### **Estonia**

#### *Building and land tax*

Estonia does not tax the transfer of a real estate. There is instead a tax on land, which is currently between 0.1-2.5% of taxable value of the land. The tax is payable by the owner or the user of the land in question.

#### *Tax on conveyance*

The rate is set by the local authority.

### **Finland**

#### *Building and land tax*

It is applied a rate between 0.5% and 1% for the cadastral value (value generally lower than market value), and for permanent residences between 0.22% and 0.5% . In 2008 the average rate was 0.74%, and for permanent residences was 0.29%. For the 2nd house, the tax rate can not be higher than 0.6% of the permanent residence. For the taxation of power stations the share can not exceed 1.40% except for nuclear power plants, for which the maximum rate is 2.20%.

#### *Tax on conveyance*

It is applied a share of 10 - 40%, depending on CO2 emission, of the taxable value of the car. The calculation of the tax rate is made using the following formula: tax rate (%) = 4 + CO2 / 10.

### **France**

#### *Building and land tax*

France applies a solidarity tax on wealth, for people whose fortune is evaluated at over 720,000 euro. The tax rates varies between 0.55% - 1.80% (if the net value of assets exceeds 15,000,000 euro). Established in 1987, it is a tax on property (all assets, rights and taxable values). Subjects who owe this tax are both individuals residing in France, for assets held in France and abroad, and the ones residing outside France, for goods held in France. Solidarity tax on wealth is calculated by applying a sliding scale on installments to the net value of taxable wealth (Minea, Costas, 2006).

*Table 1. Sliding scale on installments*

Installment	Share
Tax value < 720,000 euro	0%
720,000-1,160,000 euro	0.55%
1,160.000-2,300,000 euro	0.75%
2,300.000-3,600,000 euro	1%
3,600,000-6,900,000 euro	1.30%
6,900,000-15,000,000 euro	1.65%

Tax value > 15,000,000 euro	1.80%
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*Sursa: Rates of walth tax in France, 2011*

### **Germany**

#### *Building and land tax*

It is applied a 0.35% share for the taxation of land and buildings owned, which can be multiplied in certain limits, by the local communities. Thus, the land tax (Grundsteuer) values actually reaches between 0.98% and 2.1%.

#### *Tax on conveyance*

It is calculated based on the engine capacity for each 100 cc each or fraction thereof, as follows: For Euro 3 and over, for gas is 6.75 euro and for diesel is 15.44 euro; For Euro 2, gas at 7.36 euro and diesel 16.05 euro; For Euro 1 and under, gas is 15.13 euro and diesel 27.35 euro. For mobile homes / caravans it is applied an environmental tax between 10 euros and 40 euros per 200 kg. For other vehicles including pickup trucks weighing up to 3.5 tons it is applied a quota on weight for every 200 kg: up to 2t - 11.25 euro; between 2 and 3t - 12.02 euro and between 3 and 3.5 tons - 12.78 euro.

### **Greece**

#### *Building and land tax*

Greece include in the tax base only immovable property situated in Greece, and relative rights to such assets. The residence homes up to 200 square meters and with a value of up to 243,600 EUR are exempt from property tax, and for what is over this amount, the tax is fixed between 0.3% (wealth lower than 246,750 euro) and 0.8% (wealth greater than 1,027,250 million euro).

### **Italy**

#### *Building and land tax*

Italy taxes real estate owning (buildings and land), by a tax of 0.4 - 0.7% of the property value, which is set and charged by municipalities. The tax on real estate (Imposta Comunale Sugli Immobili) is due by both individuals and legal persons, being established in relation to the cadastral value (in general) or to the acquisition value of the asset (for buildings used for business purposes).

### **Latvia**

#### *Building and land tax*

In Latvia there is a tax on land, amounting to 1.5% of the taxable value of the land (reduced from 4% in 2000). The taxable value is managed by Financial Administration. As for the tax on buildings, amounting to 1.5% of the carrying value, it is only due by the companies that own buildings or production facilities.

#### *Tax on conveyance*

The cars are taxed annually depending on the weight (Tulai and Serbu, 2005).

### **Lithuania**

#### *Building and land tax*

Lithuania levy more taxes on the ownership of land and buildings: a building tax owed by legal entities, which amounted to 1% of the building value; a tax on land due by legal persons also, amounting to 1.5% of taxable value; for the public property lands that were rented or leased through auction, the amount of land tax is set by auction specifications, between 1.5 - 4% of the taxable value of the land.

### **Malta**

#### *Building and land tax*

Malta may be categorized as an ideal destination for living, whereas no taxes on ownership of movable property. Revenues from the transfer of a property are not taxed, if the good was kept in the property for at least 3 years.

### **Poland**

#### *Building and land tax*

Buildings used for commercial - 18.6 zlotys (4.96 euro) / sqm, and for other buildings 6.23 PLN (1.66 euro) / sqm. For land used for business - 0.69 zlotys (0.18 euro) / sqm, and the remaining lands 0.34 PLN (0.09 euro) / sqm.

### **Portugal**

#### *Building and land tax*

In the matter of taxes on land and buildings which they apply, Portugal makes a distinction between immovable property situated in the countryside (taxed at 0.8%) and buildings situated in urban areas, which are taxed at rates ranging from 0.4 to 0.8% of the imposable value. The tax is charged by municipalities (Beju and Cucosel, 2010).

### **Spain**

#### *Building and land tax*

Spain applies a tax on the world heritage of residents and on the heritage located in the country, belonging to non-residents. There are exempt from taxation: spanish historic heritage assets and works of art accessible to the public; artworks whose market value does not exceed a certain threshold set by law; private pension rights etc. The scale of tax is between 0.2% (for smaller wealth than of 167,130 euro) and 2.5% (in the case of wealth exceeding 10,695,997 euro). In Spain a land tax is levied also, amounting to 0.3 - 0.4% of the cadastral value of a building.

#### *Tax on conveyance*

A special tax on luxury goods applies to yacht owners who spend more than 6 months in Mallorca. Those must pay 12% of the value of the boat and may be required to register the yacht under the flag of Spain.

### **Sweden**

#### *Building and land tax*

Wealth that does not exceed SEK 1,500,000 (2,000,000 for couples) are not taxable, and for which exceeds this threshold is due 1.5%. A quota between 1.2 - 1.5% of the market value for housing real estates, for commercial properties the share is 1.0%, for industrial properties the share is 0.5%, and for the hydropower stations the share is 2.2%.

### **Hungary**

#### *Building and land tax*

For buildings the tax is 900 forints (2.92 euro) / sqm, or 3% of market value of the land. For lands the tax is up to 200 forints (0.65 euro) / sqm or 3% of the property at its fair value.

Our neighbours are obliged to pay a luxury tax for any home more valuable than 100 million forints, equivalent to 375,000 euro. This fee is applied in addition to the tax on buildings due to local authorities.

#### *Tax on conveyance*

The fee for cars is as follows: in the first 3 years from the vehicle manufacture - 0.99 euro \* Kw / year; in 4 - 7 years from the vehicle manufacture - 0.86 euro \* Kw / year; in 8 - 11 years from the vehicle manufacture - 0.66 euro \* Kw / year; in the years 12 - 15 from the vehicle manufacture - 0.53 euro \* Kw / year; since the 16th year after vehicle manufacture 0.40 euro \* Kw / year. Tax share for other vehicles is 40 euro per 100 kg / year.

### **3. Conclusions**

Wealth taxes are the consequences of ownership of movable or immovable property. They falls as real direct taxes, being placed on material objects, but in time they were adjusted because there are many cases in which the tax changes depending on the situation of owner. So, the customization of taxes comes as a response to the need to achieve a full tax fairness for the tax payers.

Wealth tax, the measure that conjures additional charging of buildings, in that for the same property will be paid different taxes depending on the real estate wealth of the payer, is applied in countries such as France, Switzerland, Liechtenstein, Netherlands, Norway, Greece, India and in the majority of household assets such as cash, bank deposits, savings in pension funds, real estate investments, stakes and titles.

Some countries require the taxpayer a statement containing one part of assets and the other part of liabilities. The tax is calculated on the difference or on that exceeds a certain level established. Wealth tax is applied in "welfare states" with high levels of government spending in GDP.

Lawyers of this tax say that it has as positive effects the improving of the equity of the tax system, the increase of government revenue, the encourage of economic growth. On the other hand, opponents claim that this tax determine an exodus across borders of the wealthy people, as well as a massive migration of capital abroad.

Widely accepted view is that the property tax is a local tax overly controversial, each increase of this tax generating, nationwide, more or less justified clamor.

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## Analysis of Revenues and Expenditures of a Carrier for a Voyage Charter Trip

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### Abstract

*Private finance is financial relations which runs between autonomous individuals and legal entities other than the state or public institutions, all as subjects who are under commercial law. Creation and use of financial resources in this area takes place on the basis of revenue and expenditure drawn up and approved, under their own operation statutes approved and registered with state institutions, and the control over how their execution runs and is reported is also stated in the statute.*

**Key Words:** private finance, revenue, expenses

**JEL Classification:** F65

### 1. Introduction

The decision to conduct an investigation in this sector was driven primarily by the great potential held by maritime transport in the national economy (Caraiani and Rusu, 2004). Romania presents an important maritime opening, and the advantages of this opening must be fully exploited. Constanta seaport has gradually managed to become one of the main distribution centers serving the region of Central and Eastern Europe (Topciu, 1981).

The main role of shipping is a liaison between production and consumption, the primary objective being to ensure a permanent flow of raw materials to productive industry and to move in good time the finished products to markets and consumers.

Maritime transport, by a close relationship with the shipbuilding industry, can have a multiplier effect in the economy, by entrainment related industries or economic sectors (Drehuta, 1997). Beyond this multiplier effect, the importance of maritime transport has also been recognized through the jobs they create and the important income brought to national budgets (Tulai, 1985).

Secondly, it took into account the crucial role played by maritime transport at community level, this mode of transport constitutes the main means of achieving imports and exports in U.E.. About 40% of imported goods and 70% of goods exported from the U.E. are transported by sea (Cristea, 2001).

### 2. Factors influencing the freight

- ✓ supply / demand balance;
- ✓ space allocated to transport, type of goods - there are many freight markets such as: coal haulage market, the market for timber transport, transport market of oil and oil products, grain transport market etc.;

- ✓ occupancy vessel capacity, degree of additional equipment, handling and shipping danger;
- ✓ vessel capacity (to double the capacity of a ship, the construction cost increases by 40% and the fuel by 35%);
- ✓ distance travelled in marching;
- ✓ ship classification [member of I.A.C.S-International Association of Classification Societies]
- ✓ ship's age-year of build
- ✓ cargo loading / unloading norms - as the cargo loading / unloading norms are higher, the freight rates are even smaller => small lay days;
- ✓ endowment degree of ports, simultaneously operating capacity and operating mode;
- ✓ level of fees for transit through the channels and straits;
- ✓ port charges (dues), usages fees paid by ship owners for temporary using of installations. Tolls - fees charged by the port administration. Usually the structure and the level of port taxes must be agreed with the state. After their destination, port charges can be grouped as follows: light dues; port dues; berthing, wharfage, quay, pier dues; anchorage fees; channel dues, etc.
- ✓ fuel prices;
- ✓ distance at which the ship is from the loading port;
- ✓ possibility of loading the cargo ship for return transport;
- ✓ socio-political situation in the area;
- ✓ geographical situation of the port - the risk of frost;
- ✓ calculation method of the lay days time, the rate of despatch / demurrage;
- ✓ freight payment date and currency of payment;
- ✓ method of freight (Brigham, Halpern, Weston, 1998).

### 3. Collecting the freight

It must be taken into account the following aspects regarding the necessary competence of the ship agent in respect of the calculation and payment of freight rates and its collection (Clarkson Research Studies, 2013):

1. ship agent analyzes the conditions of the freight contract:
  - The conditions of employment of the ship are properly identified and analyzed by their timely consultation in the freight contract. [charter party]
  - Goods documents are collected promptly, to determine the freight stipulated in the contract. [mates receipt, statement of facts, bill of lading]
2. Ship agent collects the freight (Sjostrom, 2010):
  - Establishing the owed freight and the dead freight is carried out in conjunction with the freight for each type of cargo loaded.
  - The equivalent of freight rates is calculated correctly taking into account the advances, deductions, payment arrangements and collections.
  - Freight collecting tracked consistently, until the liquidation of the debt.
  - The freights received are distributed to the owner timely, after commission deduction.

### 4. Analysis of revenues and expenditures of a transport for a fixed period

Theoretically, the start of operation of freight is the receipt by the broker of the demand for tonnage (1) (Eurostat data, 2009):

- Template document;
- Is an order issued by a company to hire ships on behalf and account of its freight mandate;
- Contains all the elements that must be taken into account, goods, quantity, loading port, rate of loading, the discharge rate, demurrage rate and how to regulate the payment, the date of availability of goods, the expiry date of the credit letter, who make the provision, references to transhipments, partial loads, loads on deck etc.

Market research (2) - The demand of tonnage offer (provided by broker), studying bids received contract of carriage.

Last act the broker prepares to fulfil his task is chartering notice (3) which he sends to the trader.

The broker task is deemed completed upon the receipt of charter mandate with the demand of tonnage. Usually the charter is standardized and specific to each flow of goods, during the negotiation discussions wearing only around main constituents or those printed clauses which a party wishes to amend or to abolish.

The UN Convention (Hamburg Rules) relating to transport by sea, defines sea transport contract as "any contract whereby the carrier undertakes, against payment of a freight, to carry goods by sea from one port to another." Its provisions shall not apply to charter Party contracts.

Generally it is used this type of contract, charter party, with the following clauses (Legal and Economic Analysis, 2012):

1. name of the vessel, main characteristics, useful capacity; [DWCC-dead weight cargo capacity]
2. data related to the period the voyage must begin, date on which it is estimated that the ship will arrive in the port of loading, the first day that lay days begin to run and the last day allowed for loading, as well as the duration of the voyage from the port of loading to the port of discharge;
3. how the endorsement is made on arrival in the port of loading;
4. commodity description;
5. The ports in which the vessel must operate, port of loading and port of the discharge;
6. freight, calculation, currency;
7. provided charter, how the loading / unloading costs are incurred;
8. rules for loading / unloading, the calculation of lay days, demurrage, rates of despatch; For lay days (laytime) - the maximum period during which the charterer must carry out the loading / unloading without any penalty from the shipowner. Demurrage - the immobilization of the ship for loading / unloading outside the agreed time of lay days. Demurrage value - is the amount of money paid by the charterer to shipowner (for super lay days the demurrage value is double). Despatch money - money that the charterer pays the shipowner for saved lay days. It is payable only if contracts (Ch / P) expressly stated so.[normally despatch rate is half of the demurrage rate]
9. detailing the responsibilities of the carrier and shipper concerning the cargo and related to the vessel damage (joint damage);
10. transport route;
11. Special clauses that must be included in the bills of lading, in their relation with Ch / P;
12. Clause of deviation from the normal route of transportation;
13. force majeure clause;
14. vessel situation at the time of hiring;
15. arbitration clause;
16. seaworthiness;
17. Ship class and flag of registry;
18. liability in case of cargo loading on deck.

Starting from this type of contract it is analysed the activity arising from itinerary fixing between two ports, the loading and the unloading of carried goods.

Vessel's name: M/V BLUE SKY (IMO NO. 7422049)

Port of loading CONSTANȚA / ROMANIA

Port of discharging LARYMNA/ GRECIA

Commodity type BULK IRON ORE , 3000 MT

Date: 10.06.2014

Before the ship accost to the operating berth in the port of Constanta, ship agencies prepare a pro forma DA (Disbursement Account), so that at the end, after the ship's departure and the receiving of all bills for services rendered to the ship, to draw the final DA.

Agent shall prepare proforma of the statement:

- Port dues are calculated depending on the type of stationing and operation of the ship.

- The cost of pilotage / towage for vessel maneuver is properly calculated, according to companies operating the mooring.
- All costs are estimated based on the ship stopover type.
- Pro forma statement shall be sent promptly for the agreement of the international shipping contract.

The expenses included in the statement are:

1. port charges	2 710,85 euro
2. port office fees	293,37 euro
3. pilotage/duties	100,00 euro
4. mooring, unmooring, tug	130,00 euro
5. agency tax	600,00 euro
6. telephone, fax	100,00 euro
7. transport	100,00 euro
8. bank commission	40,00 euro
9. diesel fuel	-
10. oil	-
11. healthcare	-
12. other expenses	-
13. Salport	11,00 euro
14. Trade Consal	36,00 euro
15. Club I.T.F. Seaman`s Club	40,00 euro
16. Radionav SA:	58,47 euro

<b>TOTAL</b>	<b>4 219,69 EURO</b>
Exchange rate 1.3534	<b>5 675,59 \$</b>

In general, if favorable weather conditions, 3,000 mt scrap loads in three days. Thus, on the 13.06, in the evening, the cargo ship is loaded and ready to go to the unloading port of Larymna / Greece.

Here, agents from the port of unloading prepares the statement, before reaching the ship, and send it to the vessel owner for approval. Statement from Larymna would be as follows:

1. pilot duties	279,61 euro
2. port duties	39,83 euro
3. light duties	307,37 euro
4. mandatory tug	1 617,65 euro
5. customs	50,00 euro
6. mandatory fees for delivering garbage and scraps	275,00 euro
7. binding and untying service	50,00 euro
8. driver compensation	50,00 euro
9. miscellaneous expenses	100,00 euro
10. agency fee	1 800,00 euro

<b>TOTAL</b>	<b>4 719,46 EURO</b>
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The duration of Constanta - Larymna voyage is three days. The unloading time is two days. After the download is complete, the ship is available for other transport.

According to the contract, it can drawn up the freight bill for the above mentioned transport as follows:

Loaded MT 3000 X euro 10,00 PER MT .....	euro 40.000,00
Less:	
D/A to Constanța Port.....	euro 4 219,69
D/A to Larymna Port.....	euro 4 719,46
Comission 3,75%.....	.euro 1 500,00

**TOTAL FREIGHT to the shipowner: euro 29 560,85**

Of this total falls further the tax on the Bosphor channel crossing, worthing 500 euros, but this varies depending on the type and quantity of transported goods.

Total freight is 29 060.85 euros from one goods transport. But let`s assume that the company owns four vessels and a transport takes maximum 7-10 days depending on the destination.

Monthly, from freight are deducted the wages of crew members, on a boat being 10 members with a salary ranged from \$ 1,000 and going up to \$ 2,000 plus the provisions, technical aspects, repairs spare parts, lubricants etc.

## 5. Conclusions

Regarding the entry on the market of shipping, financial barriers are by far the highest, owing to financial investments very high for constructing or acquiring a ship, combined with the lack of concrete support from the authorities for those who want to enter in this market.

Another specific aspect of the Romanian market is the dependence of freights and tariffs at the Romanian seaports by external factors such as freight markets in the region and pricing policies adopted in the major shipping companies in the world, due to lack of a commercial competitive national fleet and implicitly a domestic freight markets.

The main role of shipping is a liaison between production and consumption, especially to ensure a permanent flow of raw materials to productive industry, and then timely move the finished products to markets and consumers.

Community-wide shipping have a particular importance, representing the main mode of transport by which the imports and exports in U.E. are made About 40% of the EU's internal trade and 70% of external trade is carried by sea.

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## Aspects of the Evolution of the Existing Pre-university Education at Regional Level in 1996-2014

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### Abstract

*Education has not received the necessary attention in the past 20 years, neither from a human resources perspective, nor from an infrastructure standpoint. Many reforms were predominantly concerned with the material aspects, as opposed to the educational effectiveness. This led to a reduction in the number of educational establishments with large implications especially for primary education. Based on these considerations, the paper presents aspects of developments in the infrastructure of the pre-university education system in eight development regions of Romania. In particular, the paper addresses developments in the number of establishments structured in pre-primary, primary, secondary, upper secondary and vocational education. The analysis conducted shows a dramatic reduction in the level of vocational education as well as in the number of pre-primary establishments, but also a certain degree of stability and even an increase in the number of upper secondary units.*

**Key words:** education, educational units, ISCED, development region, Romania

**JEL Classification:** I21, I28, P36

### Introduction

In recent years the development of pre-university education was meant to receive more and more attention in Romania due to the entry into the European labour market and the need for the Romanian educational system to meet the required European standards.

In Romania, eight development regions were established, each region encompassing several counties. These developing regions were the result of an agreement between the county councils and the local ones. They do not represent the administrative territorial units and have no legal personality of their own.

Among the areas covered by regional policies, pre-university education was designed to develop the educational process through educational policies. The aim was to create added value and contribute to the sustainable development of the communities in order to achieve the "knowledge society" in Romania.

In the context of a dynamic, unstable society facing a transition period, a strategic approach to the educational policy in Romania was required. The purpose was to efficiently address the concerns relating to the human resource development and the ever-changing needs of the economy and society as a whole.

The main objectives set in 2000 with the Lisbon European Council Conference (23 to 24 March 2000) include a substantial increase of investment in education (Cramer et al, 2006). In 2006, the European Council reaffirmed the key factors that can ensure Europe's productivity growth: knowledge, research, innovation, and education. However, this process has not evolved as expected in Romania and there are still significant differences between the various regions.

It should also be noted that new measures for the development of education were imposed in Europe as a fundamental factor in productivity growth (Barakat et al, 2010,pg.1-16, Blyth, 2009,pg 1-8). This despite the economic crisis that emerged in 2008 not having large effects upon

education, with the exception of school abandonment accentuated during periods of recession (Rumberger, 2001, pg 1-34),

Based on these general observations and taking into account the International Standard Classification of Education (ISCED, 1997), this paper emphasizes the key changes registered in the period 1996-2014 and the differences between the eight existing development regions.

Considering that it is an analysis at the regional level, the analysis of trends in the number of educational establishments will only address pre-university education. Tertiary education is mainly concentrated in major universities, which benefit from a renowned tradition. Moreover, the population involved in these studies originates from virtually all regions of Romania. Consequently, the characteristics of the specific development regions pertaining to each university do not influence this part of the population. On the other hand, considering that during the period 1996-2013, pre-university education has undergone many transformations, the paper is focused on the development aspects pertaining to four educational categories, namely Preschool education institutions (PEI), Primary and gymnasium education institutions (PGEI), High school institutions (HIS), and Vocational education institutions (VEI).

The territorial structural analysis is based on Nomenclature of Units for Territorial Statistics (NUTS), Regulation No 176/2008 (eur-lex, 2014). In accordance with NUTS, Romania is structured in four Macro regions and eight development regions, as detailed below (Blyth, 2009, pg 1-8):

- Macro region 1 (Macro\_1), regions: North-West (Bihor, Bistrița-Năsăud, Cluj, Maramureș Sălaj) and Center (Alba, Brașov, Covasna, Harghita, Mureș, Sibiu);
- Macro region 2 (Macro\_2), regions: North -East (Bacău, Botoșani, Iași, Neamț, Suceava, Vaslui) and South -East (Brăila, Buzău, Constanța, Galați, Tulcea, Vrancea);
- Macro region 3 (Macro\_3), regions: South-Muntenia Argeș, Călărași Dâmbovița, Giurgiu, Ialomița, Prahova, Teleorman) and Bucharest-Ilfov (Ilfov, Minicipiul București);
- Macro region 4 (Macro\_4), regions: South - West Oltenia (Dolj, Gorj, Mehedinți, Olt, Vâlcea) and West (Arad, Caraș-Severin, Hunedoara, Timiș).

The analysis was based on the series of data provided by the National Statistical Institute of Romania (INSSE, 2016). SPSS (Cramer, 2006) and Excel ( Zaharia et al, 2014, pg.243) were used for processing data.

## Results and discussion

Due to the constant reorganisation of the educational system in Romania, the structure of pre-university education institutions has seen significant changes, especially after 1996. Considering the large overall number of educational institutions, this study uses indices of the evolution of their number starting from 1996, in order to provide a better understanding of the phenomenon. These are represented graphically in Figure 1.

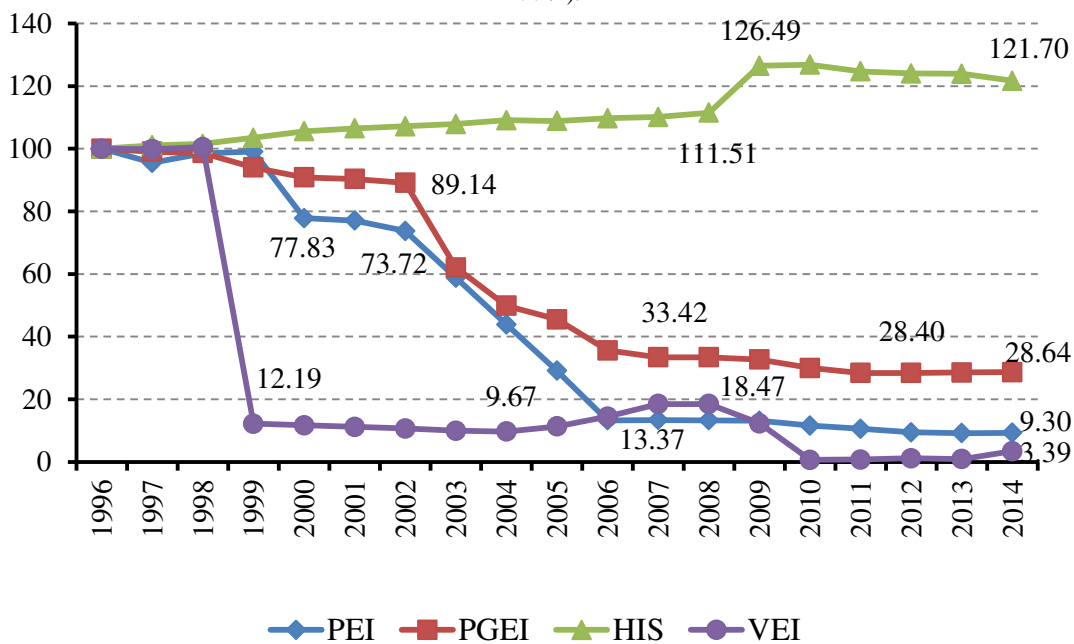
While the number of educational institutions remained relatively the same until 1998, there are fundamental changes after this period. The most significant change can be seen at the vocational level, where the number of establishments has dropped from 800 units in 1998 to 97 units in 1999 (a 87.88% reduction).

At regional level, the most significant reduction in the number of Vocational education institutions was recorded in the Center development region (94.49%), and the least significant in the North-East region (76.52%). Similarly large reductions in the number of Vocational education institutions have been recorded in the following development regions: Bucharest-Ilfov (91.53%), South-West Oltenia and West (91.1%) and South-Muntenia (90%). In fact, with the exception of the North-West development region, Moldova and Dobrogea, the vocational education was disbanded.

Preschool education establishments recorded the first significant reduction. At the national level, the number appears to be 22.17% lower in 2000 than in 1996, followed by a certain stability. The dramatic reduction in the number of preschool establishments occurred in the period 2002-2006. Thus, in 2006 there were only 13.37% of units compared to the number of units operating in 1996.

At the level of the development regions, there are significant differences (Table 1). Thus, the year 2000 recorded dramatic reductions in the number of preschool establishments in the northern regions of the country compared to 1999. In North-East, the number is nearly half, while the North-West region registered a drop in 33.44%, and the Macro\_4, (development regions South-West Oltenia and West), experiences a reduction of about 20%. On the other hand, in the Center development region and Macro\_3 (South-Muntenia and Bucharest -Ilfov development regions), there are no significant changes until the year 2002. Moreover, the South-East development region t (Figure 2) experiences changes starting from 2004.

Figure 1-Developments in the number of educational units between 1996-2000 at the level of Romania. (1996 = 100%).



Source: own construction

The Government adopted various restructuring projects aimed at reducing the activity of these establishments in the period 2000-2006. This has had a negative impact on the population from areas, that until the last decade of the Millennium XX, were characterised by a large demographic of young people. An example in this regard is the region of South-West Oltenia where previously strong industries such as coal mining or the energy sector have dramatically reduced their activity. Accordingly, in addition to the Government's lack of interest for educational reform, two phenomena have had a significant impact on the number of preschool establishments: young population migration and decreasing birth rates.

Table 1-Annual reduction rates in the number of pre-school establishments of the regions in the period 2000-2006 (%)

Development regions	2000	2001	2002	2003	2004	2005	2006
North-West	-33.44	-1.10	0.24	-47.04	-46.65	-30.17	-10.40
Center	-1.87	-0.06	0.49	-10.40	-10.59	-26.28	-69.22
North-East	-43.92	0.63	-3.15	-0.94	-28.15	-74.01	-25.39
South-East	-8.64	0.80	-8.51	-7.65	-19.64	-39.43	-55.26
South-Muntenia	-9.87	-0.17	-1.07	-29.24	-52.25	1.68	-59.93
Bucharest - Ilfov	-8.95	1.69	2.00	-16.34	2.73	-4.18	-3.17
South-West Oltenia	-21.37	-8.52	-20.72	-48.83	-6.73	-25.69	-66.57



West	-20.40	0.95	-1.05	-0.95	-17.99	-31.85	-71.26
Total	-21.44	-0.99	-4.34	-20.23	-25.33	-33.73	-54.36

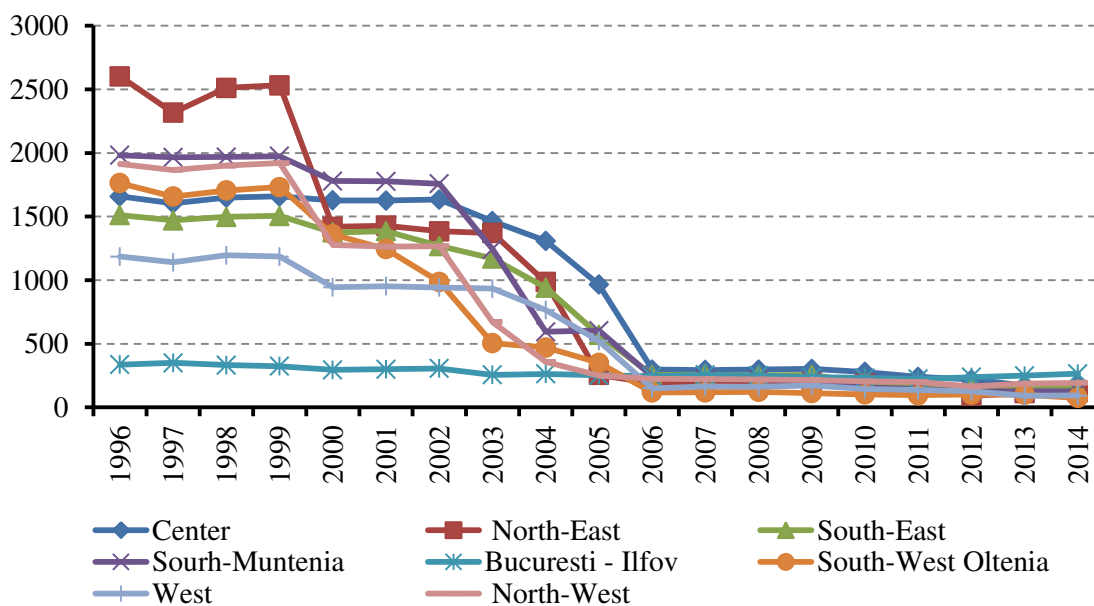
Source: own construction

With the exception of the year 2004, in the region of South-West Oltenia, the number of pre-primary education establishments decreased annually with values ranging from 20.72% in 2002 and 66.57% in 2006, thus their number represented only 6.64% compared to 1996.

In the period 2003-2006, dramatic reductions in the number of preschool establishments were registered in the North-West region, with values ranging from 47.04% in 2003 and 10.40% in 2006; the Center region, with values between 10.40% in 2003 and 69.22% in 2006, and the South-Muntenia region, where, aside from 2005, the annual reductions were employed between 24% in 2003 and 59.93% in 2006.

In Moldavia and Dobrogea a new wave of significant reductions in the number of preschool establishments was registered in the period 2004-2006. Thus, in northern Moldavia (North-East development region), the year 2005 saw the most dramatic reduction in the number of educational units in this category (74.01%). Exemplary in this regard, in one year 729 units were abolished (with serious implications for the teaching staff). As a result, only 191 pre-primary establishments were functioning in 2006 as opposed to 2602 units in 1996.

Figure 2-evolution of number of establishments of pre-school education at the level of regions in Romania in 1996-2014.



Source: own construction.

The only region where no significant changes in the number of educational establishments were observed is the Bucharest-Ilfov region (with the exception of 2003 which recorded a 16.34% reduction of the number of pre-primary education establishments). This is explained, on the one hand, by the relative stability of the labour supply, positively affecting the standard of living and, on the other hand, by maintaining the birth rate at a constant level in this region.

The migration of the population from the regions affected by the collapse of the majority of Romanian industry branches, as well as the low birth rates which in turn led to a decrease in population at a pre-primary level, had considerable effects on primary and secondary education. However, these effects were not significantly felt in the number of educational establishments. At these levels, the decrease of pre-primary population was mainly felt in the number of years corresponding to a certain training level.

The analysis of the fluctuations in the number of upper secondary education institutions shows an increasing trend in their number. This is not caused by an increase in population but is to a large

extent the result of the changes brought to secondary education units in high schools. However, there are periods in which the changes occurred in an opposite direction. (table 2).

The oscillating manner in which institutions are either established or abolished shows a high degree of uncertainty at the policy level. For instance, in the North-East development region 67 high schools were founded in 2009, only to have 14 high schools abolished two years later and another 5 in 2012. Although this can also be explained by the movement of population to areas with more opportunities, the long-term effects on the educational system are negative, at least when considering the need to ensure access to education. Increasing the distance between certain types of educational institutions affects the possibility of continuing studies in a negative manner and even leads to lower interest for further studies.

*Tabelul 2 – Evolutions of Primary and gymnasium education and High school institutions at development regions level in the period 2002 - 2012*

	Development regions	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Primary and gymnasium	North-West	-39	-714	-251	-95	-189	-20	-6	4	-58	-10	9
	Center	-17	-295	-280	-193	-167	-73	1	-3	-24	-18	-22
	North-East	-24	-872	-340	-176	-280	-24	-1	-48	-30	-43	0
	South-East	-9	-69	-288	-75	-357	-4	2	-19	-79	-5	-6
	South-Muntenia	-37	-335	-482	0	-196	-51	0	-9	-75	-74	-15
	Bucharest - Ilfov	-1	-51	-2	-4	3	-2	1	1	-8	-12	-1
	South-West Oltenia	-20	-749	-42	-53	-141	-63	2	-4	-41	-17	2
	West	-18	-653	0	-7	-38	-68	0	-18	-61	-40	35
High school	North-West	2	1	8	-3	4	5	6	33	3	3	-5
	Center	-1	3	0	-3	-1	0	1	12	-2	-5	-1
	North-East	8	3	5	0	1	-1	1	67	1	-14	-5
	South-East	-1	-2	0	0	2	0	2	32	1	-4	-3
	South-Muntenia	-1	0	0	2	2	0	4	32	0	-6	-1
	Bucharest - Ilfov	0	2	3	0	1	0	1	2	5	1	1
	South-West Oltenia	2	0	-2	1	1	1	-1	14	-3	-3	0
	West	0	2	2	0	1	0	4	2	0	0	5

Source: own construction

In the 2002-2012 period, with regard to the Primary and gymnasium education institutions number, 2003 stands out as the year with the most significant changes when, at national level 3738 units were abolished. The developing regions most affected were North-East (872 units), South-West Oltenia (749 units), North-West (741 units), West (653 units), South Muntenia (335 units) and Center (280 units). In the same year, 9 High school institutions were founded (the Center and North-East regions had 3 units each, the West and Bucharest-Ilfov areas had 2 units each, the North-West region had 1 unit, while in the South-East region 2 units were abolished).

With regard to High school institutions, 2009 is a remarkable year. To this end, 194 High school institutions were founded, the majority (67 units) pertaining to the North-East development region, while the lowest number (2 High school institutions) was attributed to the Bucharest-Ilfov and West development regions. In the same year, however, 96 Primary and gymnasium education institutions were abolished, 48 of them from the North-East development region.

Developments in the number of pre-university educational institutions in the eight development regions of Romania highlight not only the continuous changes of the educational system in Romania but also the economic implications to the detriment of certain regions affected by the migration and low birth rates phenomena. Essentially, the issues presented above show the perceptibly divergent processes and notable differences between the development regions in Romania.

## Conclusions

The aim of this paper was to analyse the evolution of the pre-university education infrastructure in the eight development regions.

The developments in the number of pre-school, primary, secondary, upper secondary and vocational institutions were addressed. The analysis conducted led to the following conclusions:

- By 1998, the number of educational establishments remained virtually at the same level, with a major change at the vocational level where the number of units has fallen drastically. At the regional level, the most significant reduction was experienced in the Centre (94.49%), while the lowest impact was in the North-East region (76.52%).
- There has been a drastic reduction of pre-primary education establishments in 2002-2006. At the regional level, the most significant reduction occurred in the northern regions. (North-East – about 50 % and North-West 33.44%)
- The only region with significant changes in terms of pre-primary education is the Bucharest-Ilfov region. The number of units of upper secondary education meets an increase which is mainly the result of the transformation of certain secondary schools into high schools.

The analyses carried out point to a reduction in the level of vocational education and the number of pre-school establishments. Nonetheless, the analyses also show certain stability at the level of upper secondary education in all regions of Romania.

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## Methods For Improving Performances In Corporate Governace In Financial Markets For Stakeholders Interest .

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### Abstract

*This article will address methods of optimization of corporate governance in the financial markets in the interest of stakeholders in the context of corporate governance , financial markets intensified concern for the protection of all stakeholders. Financials in the markets is necessary to improve performance measurement tools in order to reflect the results of an economic entity and consistency with the requirements of various stakeholders. This article aims to identify the condition's proper functioning of the entity-relationship stakeholders, identifying the most appropriate alternative options, communication between stakeholders with different specializations and risk assessment.*

**Keywords:** Corporate Governance Stakeholders, Performance, Models of Governance, Efficiency Effectiveness

**JEL Classification :** G.32; G.39; M.41

### 1. Introduction

Corporate governance is a concept that encompasses a wide range of activities rules, processes and procedures designed to ensure optimum use of resources and company strategies so that its objectives are achieved. Concept of 'corporate governance' were made numerous studies, including reports by groups of specialists representing universities major- institutions, stock exchanges, banks, governments etc. The appearance of this concept until now, many definitions have been proposed, all referring to the organization of the relationship between shareholders and managers within a company or a new stability of various factors power .În regarding the definition of corporate governance in the literature, there is no universally accepted definition, therefore I will present the most important definitions that are trying to bring numerous clarifications terminology:

Governance is the system by which companies are directed and controlled;

Corporate governance is a factor of competitiveness, performance and sustainable value growth businesses;

Corporate governance involves a set of relationships between an entity's Board of Directors, shareholders and other stakeholders;

Corporate governance is widely acknowledged as essential for establishing an attractive investment climate, characterized by the existence of firms competitive and efficient financial markets;

Reviewing stakeholder definitions in the literature showed that there is no universally accepted definition, but most authors define this notiune.Diferența similar in definition derives from how it is regarded organization: open or closed system geared towards people and on task. In the bibliography area can be recognized various taxonomies. Thus, anyone who has a stake in the work of an organization (shareholders, employees, suppliers, customers, potential investors, potential competitors, tax authorities, government institutions, etc) can be considered stakeholders.

The entity identifies its stakeholders, conducting and prioritizing them according to their interest in the organization, knowing that some stakeholders are very influential (financiers, banks or even political environment) but there may be stakeholders with a potential influence environment but

with a very high interest to the organization. In such circumstances it shall develop a strategy for behavior opposite them in a matrix analysis is important to establish that the combination of influence and interest.

Another aspect of prioritizing stakeholders is on setting goals stakeholders - whether they belong to the organization, their goals are similar to those of the organization and if not part of it, should be convey the idea that the organization does what stakeholders want or take into account what they wish and here enters the application provisions referred to in subsection stakeholder engagement. Entities more interested in their relationships with stakeholders are and their socio-demographic profile and treats the basic principle of stakeholder theory as any organization should be directed to the benefit of all "the stakeholders".

At the same time, identifying stakeholders is an important task of the entity seeking adequate answers to questions about who the agents profit or loss due to what is happening in the organization, they gain or they lose stakeholders from implementing solutions chosen entity management, time effects due to decisions made on their impact on stakeholders solution. The organization is in a dependent relationship with stakeholders, but this relationship differs according to the importance of each activity entity. A condition for the success of any action is transparent and honest communication with all those directly affected by the company's shares.

## 2 Literature review

A study at Harvard in the 90s by renowned researchers (Caulkin, et al 1994,p56.) showed that companies take into account the interests of all stakeholders have economic performance superior to that prioritizes explicitly interest shareholders. Studies over time by researchers from prestigious universities in terms of managing stakeholder indicate a direct relationship between this approach and increased economic performance. Thus, (Harrison, J et al ,2010,p58 ) talks about improving economic performance and sustainability of the company in those who have paid increased attention to relations with its stakeholders or other categories of stakeholders from outside the establishment by networking and realistic approach to all the problems is faced a particular entity in carrying out its primary objective.

English origin word "stakeholder" is formed by adding two words with different meanings, namely "stake" which is understood as stake, importance or significance and "holder" means the person holding that. Thus, stakeholder is a person who relied on action / activity and has an incentive to complete it in a certain way. In the specialized terminology, the term "stakeholder" or "stakeholders" can be approached from several perspectives: from the point of view of individuals as such, but can also refer to legal entities that are interested in conducting a trial namely, requiring it to have the desired final result (which has staked).

The concept of stakeholder was first brought to public attention in 1984 through the work of Freeman: "Strategic Management: A Stakeholder approach". The stakeholders defined as "any group or individual who is or may be affected by an entity's objectives." Hence the translation of literature local "stakeholders".

actually believes this definition of stakeholder as a redefinition of the term organization such as this and how it should be. However, (Friedman, 2006,ch 2 ) demonstrates that the organization itself should be regarded as a stakeholder group, the purpose of this entity is managing the interests, needs, opinions and points view.

( Freeman 2004 ,p.38-48) keeps using its precursors defined in a manner slightly changed: "the group vital to the survival and success of the organization." This definition is entirely oriented organization, which is why academia preferred definition of Freeman.( Friedman et al , 2006, ch 2) 4 states that this definition is more balanced and presents both an approach in a broader sense to the Stanford Research Institute. Another aspect which is chosen is that the phrase "that affects or is affected by" appear to include individuals from outside the company and certain groups can be considered safe to be stakeholders of an organization with the company to consider them as such. Even the "father of the concept of stakeholder" definition has changed over time. One of the latest definitions given by( Freeman 2004 , p.38) defines stakeholders as "the group that is vital survival and success entity" .( Armstrong, C et al ,2010,p.179 ) provides a comprehensive definition of the concept analyzed namely "Stakeholders are represented by a group of people or individuals who

have an interest in the welfare of the company and / or are influenced by objectives, operations or activities of the organization or conduct of its members. "

### 3. Optimization of corporate governance performance in stakeholder interests

Our research aims to present some common elements such as the demarcation of stakeholders from the rest of the company, highlighting the qualities they hold in the organization, influence and relations of mutual interest between them and the entity.

The thorough analysis of conceptual determination presents a common course, thus all considerations are directed towards strategic roles within the entity.

Upon examination of the link between the entity and the roles of actors that influence, we can say that there is a relationship of codependency between the two, as shown in Figure 1.

*Figure 1 The relationship of interdependence of stakeholders – entity*



*Source: own processing on the basis of literature*

One of the conditions proper functioning of the relationship entity-stakeholder is the existence of a program of involvement of stakeholders in the organization, by releasing information that will be provided, identifying the most appropriate alternative options, communication between stakeholders with different specializations, evaluation risk assessment of possible social impacts of the alternatives chosen scenarios in policy decisions that are necessary to explore how it could carry out in the future and thus to predict what plans and policies might apply to the expected changes, analysis alternative options etc. All this must be made known to stakeholders, which will contribute to transparency in the management and success of the organization's activity to the benefit of both parties: the entity on the one hand and stakeholders on the other.

### 4. Stakeholders and decision making

The decision making process has often been stated and validated in most areas. In essence, the decision and knowledge of best practice is a form of accumulated information that can only be learned through experience (Cheng, Q., et al , 2005 ,p.441). Decisions success requires more than good judgment. Once adopted, the decision must be implemented effectively so that its effect can be obtained in such a manner as to complementing and translate into fact the original problem. However, it should be noted that a decision quality could be affected (hijacked) inadequate implementation. (Mellah, K et al , 2003, p.183) as appears from the above, on the applicability of stakeholders in manufacturing of assemblies and subassemblies aviation stakeholder behavior seems to follow predictable patterns.

The literature mentions that stakeholders fall into two categories: primary and secondary. Primary stakeholders are those who can directly affect the outcome of decisions. They "have to be managed" so that through the decision process to be able to reach interested goals. Parts side are generally individuals or groups of people who are indirectly affected by decisions made but may have an important stake in decision making. If these categories of stakeholders are not properly represented, manager can-not decider achieve its purpose. (Harrison, J,2010,p.58) .In further analysis will be presented internal stakeholders working within a firm and their relationship to interconnectivity with other actors. Their decisions are often taken at different levels. (Bhaduri, A et al, 1990 , p.375) noted that there are three main levels of management in any organization: strategic, tactical and operational.

To determine the importance of economic and non-economic actors, it was developed following research hypothesis for key internal and external stakeholders (Caulkin, S ,1994,p.54):

H1: The decision making process is influenced by the ability of investors to raise funds, the investment income and cash from investing activities.

H2: investment banking are influenced by interest expense and interest income.

H3: customer relevance is determined by the quantity of finished products sold, advances to customers and manufacturing cost of products sold.

H4: Employee Effectiveness is determined by the number of full-time employees and related expenses.

H5: Shareholders' equity are influenced by developments in net assets, shares and administrative expenses and gross dividends.

After determining clear goals, it was observed that the best approach in the evaluation model is by using linear regression for each type of stakeholder considered relevant in decision making, was established by an equation linear, shown below:

Table 1 Regression model on the types of stakeholders

No.	Type of stakeholder	Regression mode	Variables
1.	Shareholders	$\text{SHREQT} = \omega_1 \times \text{EQT} + \omega_2 \times \text{AdmEX} + \omega_3 \times \text{STK} + \omega_4 \times \text{GrDVD} + \varepsilon_i$	SHREQT EQT i AdmEX STK GrDVD εi
2.	Banks	$\text{BNKInf} = \omega_1 \times \text{INTPyd} + \omega_2 \times \text{INTErn} + \varepsilon_i$	BNKInf INTPyd INTErn εi
3.	Customers	$\text{CSTRlv} = \alpha_0 + \alpha_1 \times \text{MchOrd} + \alpha_2 \times \text{CSTAdv} + \alpha_3 \times \text{RevCst} + \varepsilon_i$	CSTRlv MCHPrd CSTAdv REVCst εi
4.	Employees	$\text{EMPW} = \varphi_1 \times \text{WrkFT} + \varphi_2 \times \text{WrkEX} + \varepsilon_i$	EMPW WrkFT WrkEX εi
5.	Investors	$\text{InvPr} = \beta_1 \times \text{InvK} + \beta_2 \times \text{InvRet} + \beta_3 \times \text{InvRem} + \varepsilon_i$	InvPr InvK InvRet InvRem εi

Source: own processing

Research on decision making for financial investments were made for the first time in the early 70s with investors focusing on behavior related to information processing and selecting appropriate strategy (Glaser et al,2009,v64 ).

As expected, further research Gases its applicability in investment exploring the causes difficulties such as addiction or financial intermediaries of public information (Clarkson et al 2006 ,p.82). Under these conditions, they were analyzed capitalized funds, investment income and compensation on the profitability of total invested capital.

For the most part, immediately applicable criteria for assessing the best choice in the decisions of customers are: cost, reliability, quality and service offered (Aaltonen, K.2008,v.26). Returning to the available data, it was decided to prioritize customer orders received advances and product quality.( Geziene 2013,ch 1) considers investment in human capital to be a very important f regional development, since it stimulates economic growth and regional competitiveness.

Shareholders are known to use the opportunistic tactics to obtain subjective results and achieve personal and professional goals (Martkowski, 2004 ,p.183). In these circumstances, the main focus was put on administrative expenditure, shares of gross dividend Shareholder and handling.

*Table 2 Regression Statistics*

	H1	H2	H3	H4	H5
Multiple R	0,94	0,81	0,89	0,95	0,99
R Square	0,88	0,66	0,80	0,90	0,99
Adjusted R Square	0,85	0,65	0,79	0,88	0,8
Standard Error	53.502,45	17.334,82	6.487,72	10.046,38	19.164,72
Observations	42	89	95	62	79

Source: own processing

Table 2 presents regression statistics, namely the explanatory power of the model (measured by adjusted R2). Analyzing the overall accuracy of the linear regression models, we see the relationship between the variables set extremely tight. In addition, we can say that the relationship of trust between the variables is shown in equation stakeholders.

However, the second hypothesis, we note that R2 has a value of 0.66, which implies that only 66% of the variation of endogenous (BNKInf) is influenced by independent variables. This is explained by the multiple role that a bank plays in the business. In this particular sector, we conclude that banks do not have significant influence in the decision making process of internal stakeholders, if we follow the two variables mentioned. A solution to adjust the low correlation utility is to change the type of regression or inclusion of new independent variables.

## 5. Conclusions

Analyzing the proposed regressions early research, it was concluded that confirm the hypothesis stated. Thus, as regards the first category of stakeholders, it appears appropriate choice of independent variables to demonstrate influences on decision-making. Stakeholder analysis of the external environment of the entity is established that: investors and clients identify cohesion between influencing factors and the dependent variable.

Stakeholder decision-making process is a topic frequently discussed and researched in literature today. Its importance is equally noticeable due to the degree of implementation of the results found. For this reason, we chose determining and studying a number of factors influencing the decision making process of internal and external stakeholders.

After establishing the main objectives was confined space that is centered investigational five of the twelve categories of stakeholders identified in the literature. Evaluation of data retrieved from the database Thomson Reuters and the need for uniformity and utilization analysis, imposed the formulation of linear equations.

If when investors assess funds raised was through the results and direct effects thereof, for banks, all type of investors, was chosen pursuit exclusive stage of the sale price and the purchase price interest received and paid dividends by entities analyzed. It was found, however, that the



choice was less suitable due to reaching the threshold of 60% of the link between influencers and decision making result.

The most important of them is analyzed external stakeholders, in terms of this paper customers. The analysis performed influencing factors we assessed more from a customer perspective entity. Thus it was chosen assessing the ability to meet the need of purchase. The reasoning used was as follows: to ensure a constant customer beach, finished goods and sold in addition to covering critical need for institutional (breaking even) and the entity's ability to maintain asset quality needs of customers to high standards.

Using the same reasoning and applying it to the internal stakeholders, we AFIM that employees are the lifeblood of any entity in the sector thanks to active participation in the production process. Due to the scarcity value of customers' quality of decision analysis was restricted, taking into account only the number of full-time employees and wage expenses.

This study is making a minor contribution to the enrichment of literature new insights into the factors that influence decision-making. It can also serve as a guide for improving the activity of an entity directed to different types of stakeholders.

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## Considerations on the Fiscal Consequences of Accounting Result

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### Abstract

*The concepts of accounting result and the fiscal result, the manner of determining and recording in accounting have always aroused interest for different categories of users. The concept of accounting result is used by all entities compelled to submit annual financial statements, regardless of how the performance of the business is taxed, while the notion of fiscal result is only used by the entities liable to pay corporation tax.*

*In terms of information provided by the accounting result, those are intended for a wide range of users among which shareholders, investors, financial creditors, the general public, while information given by the fiscal result are mainly intended for the government and fiscal management institutions. Both accounting result and fiscal result are determined based on revenues and expenses recorded in the accounts, while respecting accounting policies and principles and tax laws.*

**Keywords:** accounting result, fiscal result, revenue, expenses/expenditure.

**J.E.L. classification:** M41, M48

Any economic activity involves obtaining a result that reflects how material and human resources have been used. For economic entities paying profit tax, the result of their activity is viewed through the prism of two points of view: on the one hand, we can talk about accounting result and, on the other hand, about fiscal result.

### 1. Introduction

Accounting result is calculated as the difference between total revenue and total expenditure during a financial year, without applying any fiscal correction.

***Accounting Result = Total Revenue – Total Expenditure***

Accounting result is also known under the name of the gross result of financial year before taxation, its calculation being performed by taking into account the accrual accounting rules and respecting the principles regulated by the Minister of Finance Order no. 1802 from 2014. Accounting result is determined at the closing of a financial year, according to article 19 of the Accounting Law no. 82/1991, as amended and supplemented: "*in accounting, the profit or loss is determined cumulatively at the beginning of the financial year, while the closing of revenue and expenditure accounts is usually carried out at the end of a financial year. The final result of a financial year is determined at its closure.*"

Based on these provisions, a company can get in terms of accounting either profit or loss([Contabilul.manager.ro/a/2808/venituri-și-cheltuieli-rezultat-contabil-și-fiscal.html](http://Contabilul.manager.ro/a/2808/venituri-și-cheltuieli-rezultat-contabil-și-fiscal.html)).

When accounting profit is gained, the total revenue recorded from the business conducted are higher than the costs incurred and we can say that we have a surplus of activity, an increase of economic benefits(Avram, 2010, p.49).

***Accounting Profit → Total Revenue > Total Expenses***

When the gross revenues are lower than gross expenses, we talk about accounting loss, or underperforming activity, which represents a decrease of economic benefits.

***Accounting Loss → Total Revenue < Total Expenses***

The accounting result obtained after recording revenues and expenses, according to the applicable accounting rules, is the starting point in determining the fiscal result. Unlike accounting result that reflects the effectiveness of the activity performed, the fiscal result is in fact the calculation basis used by any economic entity to calculate the corporate tax. Fiscal result is calculated based on the accounting result, performing the fiscal corrections according to legal regulations. Thus, the fiscal result is determined according to Law no. 227 from 2015 regarding the Fiscal Code, which in art. 19 of Chapter II "Calculation of fiscal result," states that " *the fiscal result is calculated as the difference between revenues and expenses recorded in accordance with the applicable accounting rules, from which are deduced the non-taxable income and tax deductions plus the non-deductible expenses*". For determining the fiscal result are also taken into account elements similar to incomes and expenses, according to the methodological norms, as well as the tax losses that are recovered in a certain time period established under the regulations of the Fiscal Code.

$$\text{Fiscal result} = V_t - C_{ht} - V_n - D_f + C_{hn}$$

where:

$V_t$  = income recorded according to accounting rules in force

$C_{ht}$  = expenses recorded according to accounting rules in force

$V_n$  = non-taxable income

$D_f$  = tax deductions

$C_{hn}$  = non-deductible expenses

or

$$\text{Fiscal result} = \text{Accounting result} - V_n - D_f + C_{hn}$$

The positive fiscal result represents taxable profit and negative fiscal result is tax loss (Law no. 227 from 2015 regarding the Fiscal Code, art.19). The fiscal result is calculated quarterly / annual, cumulated from the beginning of financial year, outside the field of accounting, using the tax register (Law no. 227 from 2015 regarding the Fiscal Code, art.19).

In the financial and accounting records the fiscal result is not registered, respectively the taxable profit or tax loss, but only the obligation to pay corporation tax resulted from applying the tax rate to the taxable profit when the entity has taxable profit. By deducting corporation tax expenses from the gross accounting profit results the net accounting profit, which is reflected in the income statement at the end of financial year.

The net accounting profit, after approval of the annual financial statements, is distributed to different destinations, as decided by the general meeting of shareholders in accordance with legal regulations in force. When the company paying corporation tax has recorded both accounting loss and tax loss, the manner to recover those differs. Thus, the accounting loss can be recovered in future years on an indefinite period and annual tax loss determined by the declaration on corporation tax is recovered from the taxable profits obtained in the following 7 successive years (Law no. 227 from 2015 regarding the Fiscal Code, art.31).

## **2. Calculation Elements of the Accounting and Fiscal Result**

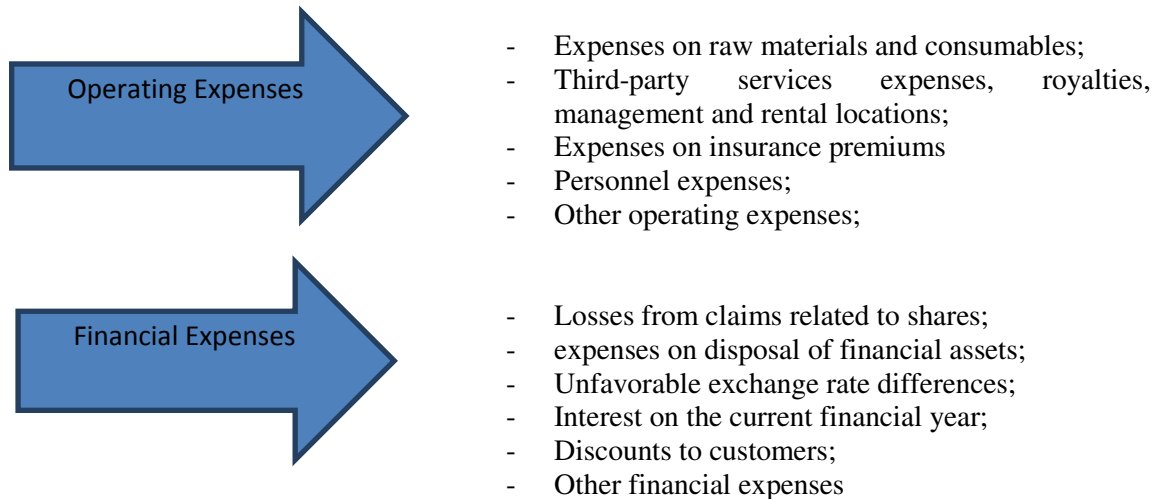
As shown in the preceding paragraph, the accounting result is calculated as the difference between total revenue and total expenditure incurred by the entity.

According to OMPF 1802/2014 revenue/income represents "*both sums and amounts receivable in its own name from current activities and gains from any other source*" and include:

- Income from sale of products and goods and provision of services; this category also includes revenue from the sale of housing by entities that are engaged in the procurement and sale of housing;
- Income related to the cost of production;
- Income from production of intangible assets;
- Other current operating revenues ;
- Income from financial intangible assets;

- Income from short-term investments
- Income from disposal of financial investments;
- Income from exchange rate differences;
- Interest income;
- Revenues from discounts obtained as a result of financial cuts;
- other financial incomes;

Expenses of the entity are the amounts paid or payable for consumption of stocks and services rendered from which the entity is benefiting, personnel expenses, and execution of legal or contractual obligations and include(Avram and Avram, 2012, p.143):



The difference between operating revenues and operating expenses represent operating result and the difference between financial income and financial expenses represent the financial result.

***Operating Result = Operating Revenue – Operating Expenses***

***Financial Result = Financial Revenue –Financial Expenses***

In terms of the fiscal result, the categories of income and expenses that are taken into account in calculating it are the same as in the accounting result, namely those registered under the regulations in force, with the difference that they are treated in terms of tax depending on their deductibility.

Thus, from the fiscal perspective, revenues recorded in the financial accounting are grouped into two categories:

- Taxable income
- Non-taxable income

In the category of non-taxable income we mention(Law no. 227 from 2015 regarding the Fiscal Code, art.23):

- dividends received from a Romanian legal entity;
- Dividends received from a foreign entity that is payer of income tax or a similar to it, located in a third country, as it is defined in art. 24, paragraph (5), letter c) of the Fiscal Code, with which Romania has concluded a convention for the avoidance of double taxation, so if the Romanian legal entity which receives dividends owns in the foreign legal person from the third country, at the date of their registration in accordance with the applicable accounting regulations, for an uninterrupted period of one year, 10% of the share capital of this legal entity distributing the dividends;
- Revenue from cancellation, recovery and re-invoicing of expenses for which no deduction was granted, income from the reduction or cancellation of provisions for which no deduction was granted, income from the reimbursement or cancellation of interest and / or penalties for which no deduction was granted, as well as income representing cancellation of the reserve recorded as a result of participation in nature in the capital of other legal entity or due to the legal entity's increase of capital to which equity securities are held;
- Deferred income tax revenues determined and recorded by taxpayers applying accounting regulations in accordance with the International Financial Reporting Standards, etc.

The expenses recorded in the financial accounting evidence are grouped in terms of taxation into:

- Deductible expenses;
- Non deductible expenses;
- Expenses with limited deductibility

Deductible expenses are the expenses incurred by an entity to conduct economic activity in order to obtain revenue.

Examples of deductible expenses are(Law no. 227 from 2015 regarding the Fiscal Code, art.25):

- expenditures related to the value of raw materials and auxiliaries purchased that were used in the production process, according to technological norms;
- expenses related to value of goods purchased for sale;
- energy costs necessary to carry out the activity;
- Salary expenses and social contributions.

In the category of non-deductible expenses it can be mentioned (Law no. 227 from 2015 regarding the Fiscal Code, art.25):

- taxpayer's own expenses with income tax due, including those representing differences from previous years or the current year, as well as income or corporation taxes paid abroad. There are also non-deductible the expenses on taxes that are not retained at source on behalf of non-resident individuals and legal entities, for revenues gained in Romania, as well as deferred income tax expenses recorded in accordance with applicable accounting policies;
- interest / delay penalties, fines, forfeitures and penalties owed by the Romanian / foreign authorities, according to legal provisions in use, except those arising from contracts with these authorities;
- expenditures made in favor of the shareholders or associates, other than those generated by payments for goods delivered or services rendered to the taxpayer, at the market price for those goods or services;
- expenses related to taxable revenue;
- expenses recorded in the accounting records, which are based on a document issued by a taxpayer declared inactive according to the Fiscal Procedure Code, except those representing purchases of goods made in enforcement proceedings and / or purchases of goods / services from taxable person while under bankruptcy proceedings under Law no. 85/2014;
- expenses from revaluation of intangible assets / fixed assets, where as a result of carrying out a revaluation according to the applicable accounting regulations, there is a decrease of their value.

In the category of expenses with limited deductibility it can be mentioned:

- Public relations expenses are deductible up to 2% of the accounting profit plus income tax and public relations expenses. The public relations expenses include the costs and expenses incurred by value added tax collected under the provisions of Title VII, for the gifts offered by the taxpayer with a value greater than 100 lei;
- Social expenditure limited to a share of up to 5% applied on the value of personnel costs
- Deductions for technological losses, which are contained in its own consumption norm required to manufacture a product or perform a service;
- Deductions, perishable, losses incurred by handling / storage under the provisions of law.

### 3. Conclusions

Given the above data, we conclude that there is a close interdependence between the accounting and tax result, meaning the fiscal result is calculated based on the accounting result to which are made fiscal corrections required by the tax system. At the same time the effects of fiscal result, or the profit tax, determined by applying the tax rate, represents an expense for the entity that lowers

the accounting profit before taxation, resulting the net accounting profit, or an increase in when it was registered an accounting loss.

Depending on the accounting result, the fiscal result and the level of non-taxable revenue and non-deductible expenses, we may have the following situations:

- Gross accounting profit, taxable profit → net accounting profit (Contabilul.manager.ro/a/2808/venituri-și –cheltuieli-rezultat- contabil-și –fiscal.html);
- Gross accounting profit, taxable profit → net accounting loss and, if the value of gross accounting profit is low the value of non-deductible expenses is high, thus the value of profit tax calculated exceeds the value of accounting profit before taxation;
- Gross accounting loss, taxable income → net accounting loss greater than the gross accounting loss with the profit tax calculated (Contabilul.manager.ro/a/2808/venituri-și –cheltuieli-rezultat- contabil-și –fiscal.html); this situation occurs when the value of expenses either non-deductible or with limited deductibility is high;
- Gross accounting loss, tax loss → net accounting loss at the level of gross accounting loss (Contabilul.manager.ro/a/2808/venituri-și –cheltuieli-rezultat- contabil-și –fiscal.html), because having tax loss makes the calculated profit tax 0 and thus the accounting result is unaffected;
- Gross accounting profit, tax loss → results net accounting profit, at the level of gross accounting profit (Contabilul.manager.ro/a/2808/venituri-și –cheltuieli-rezultat- contabil-și –fiscal.html), because having tax loss makes the calculated profit tax 0 and thus the accounting result is not affected; this situation occurs when there is high value non-taxable income.

Even though between these two economic categories - the accounting and the fiscal result, there is a close interdependence at the same time a number of differences can be found, namely:

- net accounting result is reflected in the profit and loss account, while the fiscal result is not found, since is determined outside the field of accounting;
- intended purpose: accounting result shows the effectiveness with which material and human resources were spent, while the fiscal result represents in fact the basis for calculating corporate tax;
- the notion of accounting result can be found in all entities submitting annual financial statements, while the fiscal result is found only in those entities paying corporation tax;
- the categories of users are different: shareholders, investors, creditors, society etc. are interested in the accounting result, while the fiscal result is of interest mainly for the Government, through its institutions.

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# Unconventional Monetary Policy and Bank Risk Taking in Euro Area

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## Abstract

*Central banking over the world has changed after the 2008 financial crisis. Monetary policy has expanded the array of instruments it used in order to influence the macro economy. Major central banks started using not only traditional, conventional instruments, but also some non-standard measures in order to avoid economic collapse and sustain the banking system. The aim of this paper is to analyse the impact of European Central Bank unconventional instruments, measured using the change in its balance sheet, on the bank risk-taking of commercial banks from Eurozone, captured by Z-Score. Our findings point to an increase of bank risk-taking, due to the use of unconventional monetary policy measures.*

**Key words:** unconventional monetary policy, bank risk-taking, financial crisis

**J.E.L. classification:** G21, E52, E58

## 1. Introduction

The unconventional monetary policy is a topic of interest for both academia and policy makers from central banking. However, although there is a growing literature about theoretical and empirical considerations of non-standard measures, one limitation of studying the effects of these measures is related to the relative short time period that have elapsed since their implementation (IMF, 2013).

In the context of the recent financial crisis, central banks reduced interest rates in order to sustain the economy. However, interest rates reached the so-called zero lower bound and, at this point, monetary policy became inefficient because central banks cannot anymore lower the nominal interest rate (Chung et al., 2011). The solution was the adoption of some unconventional monetary policy measures. At the zero lower bound, banks are encouraged to take more risk, being in „search for yield”. The motivation of this study is triggered by the idea of examining whether the unconventional monetary policies have the same negative effect on bank risk-taking and to assess the potential effects on the banking system.

Moreover, the research question that we address in this study has the following foundation: the low interest rates employed by the central banks aim at stimulating the aggregate demand, but they also increase bank risk-taking. At the zero lower bound, interest rates become inefficient. Unconventional measures are an alternative, but do they also increase bank risk-taking?

## 2. Literature review

All major central banks have adopted unconventional measures of monetary policy, which are non-standard not only in their self, but also in the way they were implemented by each central bank because they were not uniformly applied in all countries (Trichet, 2013).

There is not a consensus in the literature of a certain definition of unconventional monetary policy. Cecioni, Ferrero and Secchi (2012) consider the non-standard instruments as being all the measures applied after the outbreaking of the financial crisis in 2008, which were aimed at

addressing liquidity shortages of different financial institutions. Also, they argue that there is a debate in the literature whether the use of a standard instrument on a large-scale, for unconventional purposes, can be seen as an unconventional instrument.

The unconventional measures applied after the beginning of the 2008 financial crisis are known as balance-sheet policy (Trichet, 2013, Borio and Disyatat, 2009), since they produce alterations to the balance sheets of central banks. By comparison, the conventional monetary policy, namely the interventions in the level of key interest rates, is known as interest rate policy. The two types of policies, balance-sheet policy and interest-rate policy are seen as being independently from each other.

Bowdler and Radia (2012) make a classification of unconventional instruments used by central banks in times of crisis and argue that quantitative easing is a form of conventional unconventional monetary policy, while forward guidance and credit easing are strictly unconventional monetary policy. Also, they describe the transmission channels of unconventional measures, like asset purchases, to the whole economy. The asset purchases made by central banks lead to an increase of the price of assets. This means higher wealth for their ultimate owners, on one hand and lower costs of accessing credit on financial markets for banks and households, on the other hand. These two effects, taken in conjunction, lead to a rise of consumption and investments and to an increase of the aggregate demand. This, in turn, stimulates the gross domestic product and the economic activity.

Cour-Thimann and Winkler (2013) and Trichet (2013) argue that the non-standard measures applied by the European Central Bank have the purpose of complementing the standard ones regarding the level of key interest rates. This is in contrast to what had happened in United States, where the Federal Reserves Bank have initiated the use of unconventional monetary policy after the central bank exhausted all the standard measures. This view is also shared by Gianone, Lenza, Pill and Reichlin (2011).

De Graeve and Linde (2015) analyse the theoretical and empirical evidence on unconventional monetary policy in Euro Zone and Sweden and conclude that these measures can have a potential beneficial effects if they are accurately designed and implemented. The same view is shared by IMF (2013) which mention that non-standard measures have managed to prevent an acute instability.

Regarding the effects of unconventional monetary policy on the banking system, the evidence is scarce, since the majority of the studies concentrates on the effects on financial markets. Joyce and Spaltro (2014) analyzed the impact of quantitative easing implemented by the Bank of England on bank's balance-sheets and lending activity and found that these measure stimulated the bank lending. Chodorow - Reich (2014) studied the effects of non-standard measures on life-insurance companies and also found of positive effects.

Fratzcher and Rieth (2015) introduce a new approach on the effects of unconventional monetary policy and study the impact of these measures on the nexus between bank risk and sovereign risk in the Euro Area. They differentiate between announcement effects and implementation effects of non-standard measures and they empirically demonstrate a positive effect of them on the credit risk of both sovereigns and banks.

Regarding the bank risk-taking, there are many studies that demonstrate that very low levels of short-term interest rates (which is the conventional monetary policy) are associated with higher levels of risk assumed by banks (Delis and Kouretas, 2011; Altunbas, Gambacorta and Marques-Ibanez, 2010; Maddaloni and Peydro, 2011; Andries, Cocris and Plescau, 2015). Borio and Zhu (2008) create the theoretical fundamentals for the bank risk-taking channel of monetary policy and argue that the transmission mechanism of monetary policy should also take into account the changes in the banks' attitude towards risk.

The aim of our paper is to investigate the effects of unconventional monetary policy on bank risk-taking. We want to examine whether an extensive use of non-standard measures of monetary policy in the period after the outbreaking of the 2008 financial crisis have led to higher or lower levels of bank risk-taking.



### 3. Methodology

The purpose of this study is to analyse the impact of unconventional monetary policy undertaken by the European Central Bank in the period 2008-2011, in response to the financial crisis, on bank risk-taking.

Our methodology of analysing bank risk-taking is based on a recent paper of us, Andries, Cocris and Plescau (2015), in which we have studied the impact of low interest rates on bank risk-taking in Eurozone.

The equation we have used in our study takes the following form:

$$r_{i,t} = \alpha_{i,t} + \gamma * r_{i,t-1} + \beta_1 * CMP_{i,t} + \beta_2 * UMP_{i,t} + \delta_1 * CMP_{i,t} * CRIS_t + \delta_2 * UMP_{i,t} * CRIS_t + \beta_3 * bc_{i,t} + \beta_4 * rg_t + \beta_5 * ec_t + u_{i,t}$$

We analyze the relationship between monetary policy and bank risk-taking, using Taylor Gap for the conventional monetary policy stance ( $CMP_{i,t}$ ) and the change in the ratio of central bank assets to GDP for the unconventional monetary policy stance ( $UMP_{i,t}$ ). The measure for bank risk ( $r_{i,t}$ ) is Z-score. As controls we include the bank-specific controls ( $bc_{i,t}$ ), the regulatory controls ( $rg_t$ ) and the macroeconomic controls ( $ec_t$ ). TGAP is the Taylor gap (computed using the Taylor rule residuals), CRIS is a dummy variable and UMP is the ratio of ECB balance-sheet assets to GDP. The coefficient on the dummy variable “CRIS” captures the effect of the crisis.

We have analysed the model using General Method of Moment because it takes into account the persistency of bank risk and the endogeneity of some control variables.

Our independent variable, the unconventional monetary policy stance, is measured by using the change in the level of ECB balance sheet, divided by gross domestic product of each country included in the sample. We have chosen this measure taking into account the suggestion of Trichet (2013) that this would be the appropriate measure for non-standard monetary policy. Also, we have used this measure because, since the central bank balance sheet is the same in case of each country, we had to add variability to the unconventional monetary policy measure and analyse it from the econometrical perspective. So, we did this through dividing the balance-sheet size to the GDP of each country.

The dependent variable is the risk-taking of each commercial bank and it is measured using Z-score, defined as below:

$$zscore = \frac{ROA+CAR}{STD DEV_{ROA}}, \text{ where ROA is the return-on-assets, CAR is the capital-to asset ratio and}$$

their sum is divided to the standard deviation of returns. Other studies that also use this measure for bank risk-taking are Laeven and Levine (2008) and Andries, Cocris and Plescau (2015).

Besides the variables presented, we have also used some control variables, in order to account for some factors that could influence bank risk-taking. We have considered three categories of control. The first one refers to some bank-based characteristics (capitalization, profitability, size, efficiency and non-traditional activities, captured by the off-balance-sheet items), while the second one refers to the regulation of banking capital and it is captured by three indicators: capital requirements, official supervisory power and market discipline. All this three indicators are computed using Barth Database. The last category of controls refers to the macroeconomic control and we have used economic growth, importance of banks and concentration of banks.

The model and the variables included in it are based on Andries, Cocris and Plescau (2015).

Another important feature of our equations refers to the inclusion of the conventional monetary policy variable in the model. We have measured the stance of standard monetary policy using the short-term interest rate, computing using Taylor rule and Hodrick-Prescott filtering technique, as in Andries, Cocris and Plescau (2015).

In order to test the results of our model, we have used the Sargan Test for over-identified restrictions and we have tested for first and second order autocorrelation.

#### 4. Results

The relation is analyzed on the full sample 1999 to 2011, using the Generalized Method of Moments. The results are reported in column (1). We also analyze the relation using as sample the period of the crisis, from 2008 to 2011 and the results are reported in column (2). DEP(-1) is the lagged dependent variable, SIZE is the bank size, EFFIC stands for efficiency, OFFBS for off-balance sheet items, CAPRQ for capital requirements, OFFPR stands for official supervisory power index, MDISC for market discipline, EC\_GROWTH is the economic growth, IMP stands for importance and CONC for concentration. In case of Z-score, we do not include profitability and capitalization as control variables, because they are used at computing this measure. The AR(1) and AR(2) tests investigate the existence of autocorrelation of order one and two and the table reports the p-values of these tests. Sargan statistic represent the test for overidentified restrictions, while \*, \*\* and \*\*\* indicate significance at 1%, 5% and 10% level, correspondingly.

Table 1: The influence of conventional and unconventional monetary policy on bank risk-taking: GMM estimation

	Dependent variable: Z-SCORE 1999-2011	Dependent variable: Z-SCORE 2008-2011
	(2)	(1)
TGAP	.0226*	-.0020
TGAP*CRIS	-.0298*	
UMP	-.0009*	.0001**
UMP*CRIS	.0010*	
DEP(-1)	.9376*	1.2153*
PROF		
CAP		
SIZE	.0522*	.0614*
EFFIC	-.0257	.5398*
OFFBS	-.0800*	-.3869*
CAPRQ	.0560*	.0377*
OFFPR	.0193*	.0096*
MDISC	-.0875*	.0735*
EC_GROWTH	.0127*	.0010
IMP	-.0003*	.0007***
CONC	-.0072*	.0036*
AR(1) p-value	.0000	0.0404
AR(2) p-value	.7176	0.4556
Sargan Test	.2576	0.4859
Sample	2001-2011	2008-2011
Observations	3267	931
Estimation	GMM	GMM

- (\*) Significant at 1% level  
 (\*\*) Significant at 5% level  
 (\*\*\*) Significant at 10% level

In column (1) we report the results for the relation analyzed over the period 2008 – 2011. The coefficient of TGAP (-0.0020) is negative, but it turns to be statistically insignificant. The short-term interest rates reached the zero-lower bound after the beginning of the financial crisis, so they are incapable of further stimulate the economy. We argue that the results are in line with the theory

that, at the zero-lower bound, the conventional monetary policy (short-term interest rates) becomes inefficient, so the central bank employs unconventional monetary policy. The coefficient of UMP (0.0001) is positive and statistically significant. This means that the unconventional monetary policy (balance-sheet policy – mostly, credit easing) employed by the ECB after the beginning of the financial crisis, in the analyzed period 2008-2011 had a positive effect on the zscore of banks. Hence, an increased use of unconventional monetary policy leads to higher zscore and, so, to lower risk aversion and higher bank risk-taking.

The results in column (2) summarize the results of the relation analyzed over the period 2001 to 2011. The coefficient for TGAP (0.0226) is positive and statistically significant, while the coefficient for TGAP\*CRIS (-0.0298) is negative and statistically significant and the cumulative effect of the conventional monetary policy stance (captured by TGAP) is negative. We can argue that, in times of crisis, the very low level of interest rates is associated to high levels of bank risk-taking.

The coefficient for UMP (-0.0009) is negative and statistically significant, while the coefficient for UMP\*CRIS (0.0010) is positive and statistically significant. Hence, in times of crisis, an increase in the ratio of central bank's assets to GDP, due to the use of unconventional monetary instruments, leads to an increase of bank risk-taking. This is because in the period 2008-2011, the cumulative effect of unconventional monetary policy stance (measured through the share of central bank's assets to GDP) on bank risk-taking, is positive.

In conclusion, the use of unconventional monetary policy (balance sheet policy) leads to a better bank stability, to less risk aversion and, hence, to higher bank risk-taking. We believe that this could be a starting point towards the evidence of the existence of a risk-taking channel of unconventional monetary policy.

## 5. Conclusion

We examine the effects of both conventional and unconventional monetary policy on the bank risk-taking. The quantitative easing policy is considered to be a conventional unconventional one (Bowdler and Radia, 2012) because it is, basically, an open-market operation, in which central bank buys short-term assets of the government, in order to increase the monetary base. In the context of the recent financial crisis, the central banks that used QE policy, have purchased long-term assets and, also, corporate bonds and other type of private-sector assets.

The results point to a risk-taking channel of unconventional monetary policy. We find evidence that the extensive use of non-standard measures after the outbreak of the 2008 financial crisis lead to higher bank stability for commercial banks in Euro Zone, hence to a higher propensity to involve in risky activities and higher bank risk-taking. As the majority of the studies have shown, the non-standard measures taken by European Central Bank have had a beneficial effect on the banking system and a core role in sustaining it, through different measures of providing liquidities to banks.

The novelty of this paper consists in the analysis of unconventional monetary policy of ECB on the risk-taking of banks from the Eurozone countries, but also the use of the model proposed in Delis and Kouretas (2010) and Andries, Cocris and Plescau (2015) for analysing the existence of a risk-taking channel of monetary policy. Here we use it in order to assess the risk-taking channel of unconventional monetary policy.

The effects of unconventional monetary policy on the stability of the banking system are important to identify in the light of the exit-strategies and of the recent idea of still using unconventional monetary policy after the economy restores to a "conventional" state.

One of the main changes that the crisis has brought to the central banking is the view that the objective of price stability should take into account the financial stability. Furthermore, the transmission mechanism of monetary policy, which incorporates interest-rate policy, as well as balance-sheet policy (or non-standard policy) should account for macroprudential policy when assessing the potential effects on the banking system, as well as on the whole economy.

Regarding the exit strategies, we share the view of Trichet (2013) that they should follow a logic order, which means that central banks should, first, gradually and slowly abandon the use of non-standard, unconventional measures and, only after, restore to the traditional measures, which would imply an increase of key interest rates. However, there are many voices that said that some

unconventional measures used in the present may be seen as conventional ones in the future.

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## Aspects Concerning Taxes in the Evaluation Perspective. Romanian Case

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### Abstract

*The latest amendments in national legislation on aspects related to real estate tax assessment have created an entire debate among practitioners. So, conceived and structured on a complex issue, the paper intends to present some elements of accounting and taxation related to tax assessment respectively a case study representative of the theoretical part. The purpose our research is part of establishing repercussions within the new legislation on taxes due to the state, and implicitly impact on the activity of economic entities.*

**Key words:** evaluation, reevaluation, taxation

**Jel code:** M41, H32

### 1. Introduction

Starting from the fundamental purpose of accountancy, namely delivering information which should provide a trustworthy image of the financial position, of financial performance, and also changes in financial position, in order to use these information by both the internal and external users for substantiating some economical decisions, for improving the performance or strategies, for carrying out a property transfer, merging, communication towards fiscal unity – the entities, regardless of their juridical status of organization, see the necessity of measuring the possibilities, weaknesses and strengths.

Broadly, the evaluation is an analysis, an opinion or a conclusion referring to the nature, quality, value or usability of certain interests or aspects of a particular property, expressed by an impartial person, who is specialized in analyzing and evaluating properties. Limitary, evaluation is the process of estimation of a certain type of value, for a particular property, which is made at a special date and which is embodied in the evaluation report. (Anghel et al, 2010, p.16)

Evaluation can be ranged, according to diverse criteria but, depending on the purpose for which it is realized, evaluation can be: evaluation for purchasing or sale, evaluation for the minorities' actions for obtaining a correct compensation, for financial reporting, for taxing.

The bond between accounting and taxation is essential in elaborating some national accounting rules. In countries where tax regulations are independent of the accounting ones, the fiscal result is issued from applying specific rules, which are independent of the ones used in accountability. (Feleaga, 1999, p.169)

In the countries from Mainland Europe, taxation exerts an important influence upon both accountability and the evaluation rules of measuring, due o the fact that there is a close bondage between bookkeeping and taxation. For this reason the entities have the tendency to underestimate the profits, in order to minimize the corresponding contribution, for increasing damping and adjustments for the registered depreciations. (Roberts et al, 2005, p.254).

Designed and structured based on a complex problem, the present paper provides both the presentation of certain accountability elements and of taxation, which are related to tax assessments, and a study case which is representative for the theoretical part.

## **2. Methodology**

Any research that tends to be scientific should have a purpose. The purpose of the present paper is the one of presenting theoretical and practical aspects, which are connected to the importance of tax assessment.

The work methodology is based upon theoretical research concerning concepts and regulations in this domain. For completing this paper one had studied The International Standards of Evaluation, papers from the financial accountability field which were written by famous researchers, one has analyzed the regulations for financial bookkeeping, thus, this being a qualitative research of exploratory type.

The empirical part of the paper is based on a case study through which we identified the main points of differentiation in the way of establishing the tax on buildings.

## **3. Aspects concerning the evaluation for taxation in national level**

The developing of an entity's activity entails the existence of a technical-material base, within which the current assets have a very important economical role and have a significant weight factor. Current assets are assets items, which are detained for more than a year, being generators of future economical proceeds for the entity. (Matis Pop, 2010, p.144)

A relevant category for assets is represented by tangible assets, these being those tangible elements hold for being used in goods production or in service provision, with the purpose of being rented to third parties or for being used in administrative purposes, and which are expected to be used during different periods of time. (IFRS, IAS 16, 2012)

A result of the fact that tangible assets are used in a long-lasting manner, excepting the lands, they are decried and depreciated, due to physical or moral attrition, as well as to different economic, social and political factors, thus being required the adjustment of their value, in order to be recognized as close to reality as possible in the annual financial report, respectively for different reasons such as sale and taxation. This adjustment of the value of corporal tangible assets should be viewed according to two aspects:

- Permanent, conclusive, irreversible adjustments known as pay offs
- Temporary, reversible adjustments known as depreciation adjustment (Matis, Pop, 2010, p.144)

Generally speaking, economical evaluations, respectively reevaluation, have a final purpose in determining the market value of a property, asset or company, thus offering real information about the property or the asset in question.

Concerning the reevaluation of tangible assets, this implies to evaluate again, usually updating a preexistent value. (Todea, 2004, p.4)

Reevaluation of tangible assets, including buildings, is a subject which the contributors were always interested in, just considering the fiscal implications that may appear. Therefore, a great deal of attention should be paid to the way in which these operations are reflected for the establishment of chargeable value.

Reevaluation tax treatment is a quite complex and unpleasant one for the practitioners. Not just for a few times situations in which Tax Code is fallaciously interpreted, are met, generating in this way, differences concerning the income tax, building tax and moreover differences concerning the required interests and penalties.

The new Tax Code / Fiscal Code brought changes concerning the buildings' chargeable asset, thereby, if according to the old Tax Code the chargeable asset was represented by the accountant asset, namely by the acquisition cost, by the building or by the market value concerning reevaluation, at the moment the tax value is the value from 31<sup>st</sup> of December of the previous year to the one for which the contribution is owed.

The tax value can be: the last tax value which was last registered in tax authority records, the value resulted from a value report - made out by an authorized assessor, the final value of construction work - in the case of new buildings which were built during the previous fiscal year, the buildings' value which is resulted from the papers according to which the right of property is transferred – in the case of the buildings which were acquired during the previous fiscal year, in the case of the buildings which are financed based on a contract of financial leasing, the value resulted from an evaluation report made out by an authorized assessor and which is compiled on the evaluation standards of assets, the last being in force at the evaluation date – in case of the buildings for which the building contribution is required, the value which is inscribed in the owner of the building's accounting records and which must be transmitted as appropriate to the concessionaire, to the occupant, to the administrative holder. (Law no. 227/2015)

The updating of taxable value is made in each three years, following an evaluation report; otherwise the contribution share would be 5% (Law no.227 / 2015).

The cost approach consists in new cost estimation minus physical attrition and / or functional depreciation. The economical / external depreciation are not being taken into account. The assessor have to choose between the two types of new costs – replacement or reconstruction cost, and to frequently use one of these two while applying for this measure. Replacement cost is commonly recommended, but if this is not possible, reconstruction cost is being applied reasoning why this particular cost is taken into consideration. (GEV 500, 2015).

The income approach is applied only when the land of the real estate property, which includes the assessed building – is not included himself in the undivided share, and if the tax payer provided the assessor with information concerning the ground area corresponding to the building in case. The process of applying the income approach consists in two main stages: firstly, the market value and real estate estimation rating – including both the building which is the subject of evaluation, as well as the ground field related to the building; and secondly, allotting a market value to the real estate in the previous stage, between the value of the building itself and the ground field's value. The income approach is not applicable when there do not exist some comparable market information. (GEV 500, 2015).

The market approach is applicable only when the ground field corresponding to the real estate – from which the evaluated building for taxation is a part of, is not included in the undivided share and the tax payer provided the assessor with information concerning the surface of the ground field. The market approach is consisted in two stages: the first one is the market value estimation of the real estates, including both the building being the subject in matter to taxation, and the input of the ground field corresponding to the building; the second stage consists in allotting the market value which was obtained in the phase between the building valuation and the ground field valuation. (GEV 500, 2015)

From comparing the three types of approach, emerges the fact that the cost approach is the simplest and also the compulsory one, requiring less information as opposed to the other methods. The income approach, as well as the market one, requires certain piece of information which the entity might not have.

Starting from the three types of evaluation, the question of the result arises, whether if the value resulted from applying the cost approach is the least, will this be in the end chosen; and if from applying the other methods comes out a lower value, the result depends on the value resulted from cost and these values. If the difference is of maximum 10%, the lowest value will be selected, or otherwise the cost approach will be selected, due to the fact that this can be diminished by 10%. (GEV 500, 2015)

From comparing the old Tax Code to the new one, it comes out that the tax rate being applied to the taxation value is not different anymore depending to the owner, who could have been an individual or a legal entity, but it differs as it follows, depending on the destination of the building: for residential buildings a rate between 0,08%-0,2% is applied, and for non-residential ones a rate between 0,2%-1,3% in applied. (Law no. 227/2015).

The building's taxable value, delivered in RON, is determined by multiplying its built surface – delivered in square meters, by the corresponding taxable value, expressed in RON/square meters. The influencing factors are: the type of the building, namely building, extension building, basement, underground floor, attic, and the materials out of which the building is made,

respectively concrete, brick, wood, and also the building endowment with water, duct, heating and electrical facilities. (Law no. 227 / 2015)

At the same time the correction coefficient must be taken into account, because this is used for adjusting the building's taxable value according to the locality rank, and which varies from 0 to V, 0 being the one for which the greatest deal is paid, and the area in which the building is located which varies from A to D, the greatest deal of taxation being imposed for building which are situated in A areas, by multiplying the building's value determined in RON / square meter by the corresponding correction coefficient. The values which could be taken by the correction coefficient are pointed out in the Fiscal Code. (Law 27/2015).

#### **4. Practical aspects determining the tax on buildings**

Our case study is based on an economic entity which operates in the processing and selling PVC and wooden carpentry. According to statistics from the Trade Register Alba, the entity is situated in first half of the rankings according to Fiscal value of economic operators (Decision no. 359, 2015).

Thus the problem of taxation is an important concern for its business. She holds both buildings for the activities TESA staff and to achieve production.

In determining the amount of tax on buildings, respectful of current law (article 458 Tax Code), the entity will take into account that the building is owned by individuals - the owner of the company, and falls into the category of non-residential buildings. In this building, the entity develops its activity of manufacture. Is applied quota of 1.3% on the value of the building resulting from the act of transfer ownership of the buildings achieved in the last 5 years preceding the reference.

Thus:

As we can be seen from the accounting records, the building was bought four years ago, at a value of 147.980,64 Ron.

$$\text{Building tax due: } 147.980,64 \text{ Ron} * 1,3\% = 1.923,748 \text{ Ron}$$

Owners must submit statement about building value until the end of the first quarter. Failure to submit the declaration and supporting documents in time will lead to a calculation of tax on buildings with a rate of 2% applied to the taxable value determined as residential buildings, which can lead to a value up to 10 times higher.

For the second building, the company will take into account for calculating the tax on buildings, its destination. The building is residential and is used for the activity of administrative and financial accounting.

For residential buildings and annex buildings owned by individuals, the tax is calculated by applying a rate of 0.1% on the taxable value of the building.

The taxable value of the building, expressed in RON shall be determined by multiplying the area conducted its built, expressed in square meters, with corresponding taxable value, expressed in Ron/ m<sup>2</sup>.

The building has an area of 62 m<sup>2</sup>. Accordance with the provisions of local taxable value is 1000 Euro / m<sup>2</sup>.

Thus:

$$\begin{aligned} \text{Taxable value: } & 1000 \text{ Ron/m}^2 * 62 \text{ m}^2 = 62.000 \text{ Ron} \\ \text{Building tax due: } & 62.000 \text{ Ron} * 0,1\% = 62 \text{ Ron} \end{aligned}$$

Do not must be submitted any statement for this property.

Therefore, the total tax on buildings owed by the entity which made our case study is:

$$\text{Building tax} = 1.923,748 \text{ Ron} + 62 \text{ Ron} = 1985,748 \text{ Ron}$$



## 5. Conclusions

As tax repercussions of changing conditions in the assessment we have identified as the first aspect fact that the taxable value determined according to GEV 500 is not the same as market value and is not recorded in the financial statements, therefore if the entity decides to perform revaluation at market value of its elements for financial reporting accordance with current regulations, this will be recognized value in the financial statements.

As a result of the changes brought by the new Fiscal Code will be reached where the same building there will be two evaluation reports, with two different amounts, but both correct, according to the regulations have been met.

The paper allowed a SWOT analysis for the effects of changes to national legislation on taxation:

### Threats:

- Ambiguous legal framework, sometimes confusing allows double reporting of the same building value because it will prepare two evaluation reports, one for tax and one for financial reporting

- The existence some of the ambiguities regarding the evaluation of buildings with mixed purpose that can explain only by doing.

### Opportunities:

- Increasing state resources

- Data recorded at ANEVAR on taxation values can be accessed by interested parties

- Identification good practices at European level applicable in the country.

### Weaknesses:

- Conditions for achieving increased fraud

- An owner who owns two identical buildings, whose value tax is identical, but the buildings are located in different places, different pay tax for each building, according to the quotas set for that locality.

Strengths: - Allow fair assessment of each activity for taxation

- Taxation will be based on the use of the building, regardless of whether the owner is a natural or legal person, leading to a uniform tax treatment

- Two identical buildings, even if they are located in different places, leading to the existence of taxable value identical.

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## The Importance of Accounting Information in Decision Making

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### Abstract

*In the field of accounting, economic information is of great interest, meaning that accounting information plays an important part in the economic book-keeping/registration system in general, but also in the economic information system especially for decision making necessary for the business.*

*Although accounting information are available for a wide range of users - stakeholders (managers, employees, suppliers, customers, financial creditors, government and its institutions, the public, the media, etc.), the investors (shareholders) are recognized as the privileged users of accounting information.*

*Four principal qualitative characteristics must be met for the accounting information to be useful in the management system: understandability, relevance, reliability and compatibility of information. Any economic transaction processing involves collecting, categorizing, summing and analyzing the data.*

**Keywords:** accounting information, decision making, characteristics of accounting information, users.

**J.E.L. classification:** M41, M48.

### 1. Introduction

Economic information is of particular interest for accounting. Accounting information belongs to this category. It is obtained by specific methods, procedures and instruments for processing economic data. It is the most real, accurate, complete and operative information representing in fact the support on which the management process is based. Most of the decisions that are made in the process of work rely on information obtained from accounting.

It means the accounting information plays an important part in the overall economic system of registration but also in the economic information system, especially for decision making necessary for the business.

As pointed out by (C. Greiner, 1998,p.1120), we must not lose sight of:

- Information is a designed item, "information do not grow in nature, they are produced, meaning they are symbols deliberately created by social operators";
- Information create representations and induce behaviors, making use of complex mechanisms;
- Along with formalized knowledge, the tacit, unexplained one plays a very important part.

(Greiner, C., 1998 ,p.1120)

Accounting information can be:

- Current;
- Reporting;
- Provision;
- Execution;

- Internal and external.

Accounting information is produced by specialized structures, organized within the enterprise in the form of distinct functional compartments, or outside the unit as independent legal entities, as well as certified freelancers whose principal activity is to obtain these accounting information.

According to some authors, 46-50% of the economic information are provided by accounting. "The information, as the element around which all human actions gravitates in the social-economic context, has the accounting as the primary provider in the economic - financial context."(Iacob,C.,Ionescu,I., Avram, M., 2011)

Accountancy is an informational discipline that studies the effects of economic transactions and other events on the economic and financial situation, as well as on the performance of an accounting entity in order to inform users. The information provided by this discipline forms the basis on which the organization is evaluated by a group of users from within and outside of it.

Starting from the two types of accounting an entity may have, there are two types of accounting information: financial and managerial.

Financial accounting information is meant for external users, such as investors, employees, creditors, government or general public and is given by the financial statements, consisting of: balance sheet, profit and loss account, statement of changes in equity, cash flow statement and the accounting policies and explanatory notes thereto.

Managerial accounting information is for internal users or the entity's management and includes information on the unit cost of products, cost behavior relative to the volume of business or profitability per product.

Elaboration and publishing of accounting information, able to show in a balanced manner all the qualities listed above, should lead to the achievement of financial statements that reflect fairly the assets/patrimony and financial situation of the company. Informational activities can be described as a set of actions relating to the production and use of information. (Minu, M., 2002)

Meaning of the word information can be explained only in relation with two other terms: data and knowledge. Any data is a sign, a symbol resulting directly from observation of facts. It is a raw material which, by analysis, will be transformed into information. An information is resulting from the analysis of data so that it meets a user's needs in a context that is particular.

Financial analysts take over the raw data and turn it into another type of information, which reflects their ability to understand, synthesize and interpret information in its quality of raw material.

Specifically, financial analysts perform three types of activities relating to information: (Feleagă, L., (Malciu), Feleagă, N., 2005, p.60)

- searching for private information that is not publicly available;
- analysis, processing and interpretation of information in order to foresight (predictive analysis);
- analysis of past performance (retrospective analysis); thus, we see that their relationship with accounting information is not a simple one.

On one hand, the accounting information is a production factor for analysts and, on the other hand, the same information represents on the market a competitive product for analysis reports.

Although accounting information are available for a wide range of users - stakeholders (managers, employees, suppliers, customers, financial creditors, government and its institutions, the public, the media, etc.), the investors (shareholders) are recognized as the privileged users of accounting information.

## **2. The importance of Accounting Information in Decision Making.**

The renowned Romanian writer N. Feleagă ( Feleagă, L.,(Malciu), Feleagă, N., 2005, p.60) stresses that "the mere enumeration of evaluation criteria for the quality of financial information is of great utility for standard setters, practitioners and authors specialized in accountancy, business executives and external users of synthetic documents. These qualities are necessary, especially for standard setters and practitioners, in the preparation of accounting norms that are consistent with the objectives of financial reporting." Therefore, the quality of information provided by accounting truly influence the effective and operative economic decision making and this is the main reason

for studying accounting, which is to obtain knowledge and skills needed to participate in major economic decisions.

According to the well-known American scientists B. Needles, H. Anderson and I. Coldwell, "the information provided by accounting represent the basis on which decision-making process rely both inside and outside the company", stating that the purpose of accounting information - "to provide the basic data needed by different users to take fundamental decisions" - is an ideal. The difference between ideal and real ,, is the most interesting and controversial part of accounting " (Nedlees B., Anderson H., Caldwell J., 2000,p.4)

Renowned US economists Ch. Horngren, M. Datar and M. Foster believe that "accounting systems are based on economic events and operations which occurred in an enterprise and process all data contained in these operations to transform them into information useful to managers and other users, such as sales representatives or production departament managers. "

The processing of any economic transaction involves collecting, categorizing, summing and analyzing the data. ( Horngren T.Ch., Datar M.S., Foster G. , 2006,p.2)

To summarize the above mentioned approaches and to acknowledge the role and importance of accounting information in decision making, we shall represent them in Figure 1.

*Figure 1. Role and importance of accounting information in decision making*



*Source: Own projection*

The performances of of any economic system depend on the quality of decisions and the speed with which action is taken to eliminate the causes in this context. For high quality decisions, the decision-making process must be well-founded. We make decisions every day. Some are simple, but others are not as simple, yet all these decisions have something in common: a decision making process.

According to specialists Ch. Horngren, M. Datar and M. Foster, "the decision making process involves gathering information, taking into account future costs and benefits, selection of an alternative or action consistent with this choice and evaluation of the results."

Renowned economists R. Anthony and J. Reece differentiate decisions in two categories:

- Short term decisions;
- Long term decisions – elaboration of investment reports.

They propose some practical recommendations ( Al. Nederiță & All, 2000,p.93) that can be used in decision-making, "during the selection process, one should limit the possible alternatives since it is possible to block the activity and not reach the proper analysis; pay attention not only to quantitative values; acknowledge the size of the error in case of failure; despite the situation, you should take a decision since not making a decision may be a worse version; most of all, present your proposals in a clear manner so that decision makers can choose an alternative. "

### **3. Characteristics of Accounting Information**

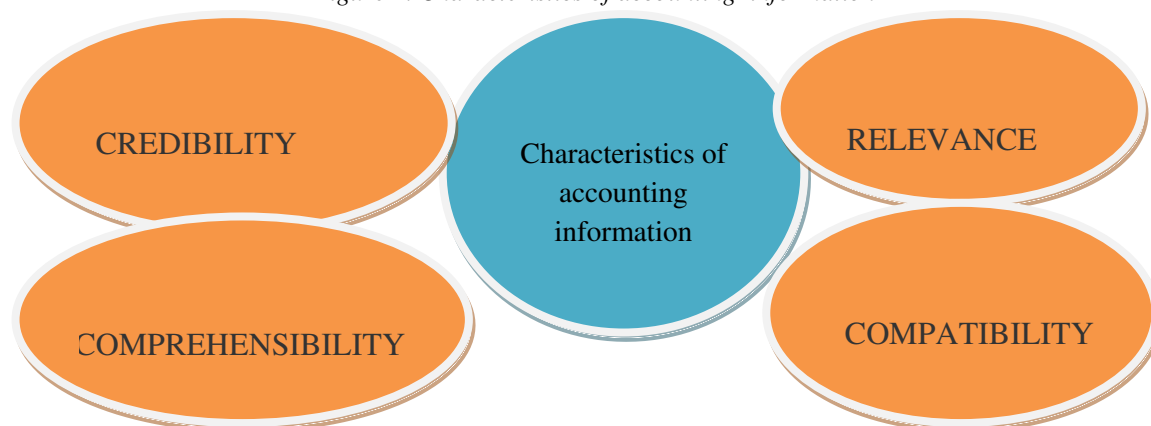
The quality of accounting information is characterized by a number of characteristics such as: ( Negescu, M.,D., 2004,pp.147-148)

- Speed - sets the time required for a information to go through from the issuer to the receiver;
- Frequency - represents the number of information of the same type per a unit of time, causing the rhythmicity of information;
- Accessibility - depends on the means of communication, personnel training level, means of storage, etc.;

- Topicality - is the ability of information to present recent events;
- Comprehensibility - is an information's propriety to be perceived by users;
- Reliability - is the ability of information to provide a true and fair image of an event or object;
- Relevance - implies the capacity of information to give answers in a given situation;
- Age - is expressed by the length of time passed from collecting information until the transposition into action of the decisions based on them.

In the context of contemporary developments of any company's activities, evolution of the market economy (Avram, M., 2010), its increased complexity led to a corresponding development of the economic and financial information. This type of information characterizes the financial situation of a company, the results of its economic and financial activity, the use of human and material resources, both for its own needs and for third parties (shareholders, customers, banks, tax institutions, other natural or legal persons).

Figure 2. Characteristics of accounting information



Source: Own projection

Within the managerial system, for the accounting information to be useful, it is necessary the fulfillment of four principal qualitative characteristics: comprehensibility, relevance, reliability and compatibility of information. (OMPF . 1802 of December 29, 2014)

✓ **COMPREHENSIBILITY:** is an essential quality which implies that accounting information must be easily understood by users. To that end, the users are assumed to have a reasonable knowledge of business and carry out the tasks given by economic activities.

✓ **RELEVANCE:** is their ability to be useful to the beneficiaries in decision making. Accounting information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events, confirming or correcting them.

✓ **CREDIBILITY:** accounting information has the quality of being reliable when it does not contain significant errors and is not biased and users can trust that the information represents correctly what it aims to represent or what is reasonably expected to represent.

✓ **COMPATIBILITY:** implies that users can compare the information presented in the financial statements of an enterprise over time to identify trends in its financial position and performance.

Users can only trust in information that is both verifiable, neutral and fair.

*Verifiability of accounting information* is ensured through standardization activities and accounting rules.

*Neutrality of accounting information* means its fairness and the company's managers and producers of accounting information must be neutral as regards the information they process and present.

To be *reliable*, accounting information should truly present the reality.

#### 4. Conclusions

In conclusion, accounting information holds the crucial role in substantiating the economic decisions, offering the possibility of an accurate representation of economic phenomena and processes. Users of accounting information act, operate and make decisions constantly, by using and understanding the accounting information provided by financial statements.

The financial statements published by companies are aimed at providing data able to ensure markets' efficiency and the optimal allocation of economic resources.

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# The Impact of Applying the IFRS Accounting Rules on the Business Environment

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## Abstract

*Throughout this study, I have underlined the need for implementing financial accounting rules and the general features related to the described fair value, while also presenting the development of the relevant standards and the definition of IASB perception in relation to financial assets, financial liabilities and capital instruments.*

*A slow progress and repeated delays have helped IAS 39 remain relevant for a period longer than initially foreseen and this trend shall remain in place until IFRS 9 is implemented. This shows the ever growing importance of the topics and approaches discussed in this study.*

**Keywords:** fair value, financial assets, IAS 39, IFRS 9, reclassification

**JEL Classification:** M41.

## 1. Introduction

The existing specialised literature touched on the conformity of fair value, concluding that the main purpose of standard regulation was to make the switch to a complete model for fair value. Scientists have voiced their concerns with regards to the periodical nature of fair value accountancy.

According to Fiechter (2011b, 36), "most banks think that IASB and FASB no longer tend towards convergence, despite the fact that previous results had shown a significant support for the convergence process among banking institutions".

Although it is still uncertain to some extent, the IASB direction on key issues has become clearer during the past year, thus explaining the slight decrease recorded by the strongest impact generated by accounting transformations.

Among the reasons behind the existing lack of trust towards the convergence process, we can mention the disagreements generated between various departments of a banking institution, with regards to the core principle issues.

Besides, currently, there are significant deliberations related to depreciation, supported independently by FASB and IASB.

Macve (2010, 112) think that "the accounting standards comprise a conceptual framework for their own adoption and interpretation – which is not an implementation-oriented structure".

Avram (2011, 3) present that the purpose of a conceptual framework is "to provide a set of consistent principles and instructions for the achievement of a pre-set goal, which, in the case of IFRS, issues preparation principles and instructions for Financial Statements".

The steps to be taken in order to implement a change in the IFRS Standards, are not clearly explained in the standards or in the conceptual framework, and the research field has not touched on the issue of how to organise and set-up these procedural steps. (Avram et al., 2008, 37)

## 2. Accounting objectives and concepts specific to IFRS implementation

All external reporting by economic entities should be aimed at providing primary users with

useful information for their decision-making processes related to resource allocation.

IASB (2013a, OB3) consider that “such decisions involve granting loans as well as decisions related to acquisitions, sales and maintaining the conformity of debit instruments”.

Fiechter (2011b, 38) has been described IFRS “as a principle-based framework, as opposed to US GAAP which is mainly based on rules. However, there were certain IFRS Standards, such as IAS 39, who have been categorised as rule-based standards, in terms of their features, although, this aspect is more widely discussed in relation to the risk-covering accountancy”.

Currently, IFRS (2013b, 770) present that “IASB is working to complete IFRS 9, as a replacement for IAS 39, one of the reasons for this being the fact that IAS 39 had been criticised for its rule-based nature”.

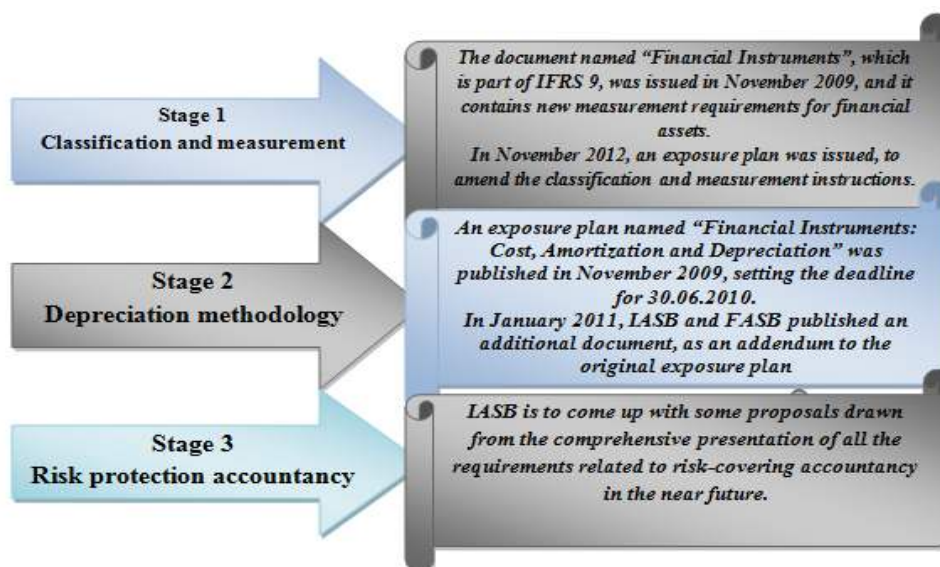
IASB decided to replace IAS 39 as a reaction to the strong critiques raised by this standard. The first stage of this process took place in November 2009, when the new measurement and classification requirements for financial assets, were published.

Unsurprisingly, given the complex and often controversial nature of this topic, the implementation of IFRS 9 was delayed by another 5 years.

From IASB’s perspective, IFRS (2013a, 303) consider that “the most important step was the full replacement of all the financial instruments specific to IAS 39”.

The project to replace IAS 39 is based on a three stage approach - stages that are described in Figure no. 1:

Figure no. 1. Description of the IAS 39 replacement stages



Source: (IFRS, 2013a, 306-307)

The main purpose of IFRS 9: Financial Instruments is to replace the accounting requirements related to the classification and measurement of financial assets and liabilities.

Initially, IFRS (2013b, 1132) think that “the IFRS 9 project was designed to be implemented on the same date. However, the approval process of IFRS 9 has been postponed, until the IFRS 9 project is closer to completion. IFRS users shall have enough time to prepare for the new standard’s application”.

The empirical part of this analysis is done retrospectively. Thus, the reporting requirements are based on IAS 39, although the future requirements related to this research report can be used for a better understanding and observation of the economic and financial development.

### 3. The Impact of applying the IFRS accounting rules on the business environment

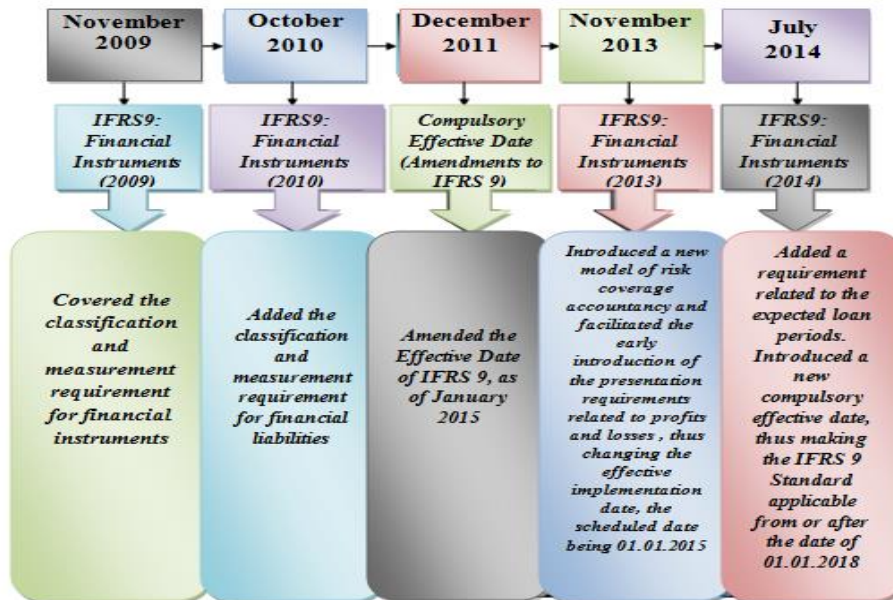
As a partial response to the implementation of IAS 39, IFRS 9 stipulates that all foreseen credit



losses must be recognised in the Revenue Statements according to IFRS 9.

The following figure describes the history of the IFRS 9 Standard and the various amendments and revisions it has been through.

Figure no. 2. Evolution of IFRS 9: Financial Instruments



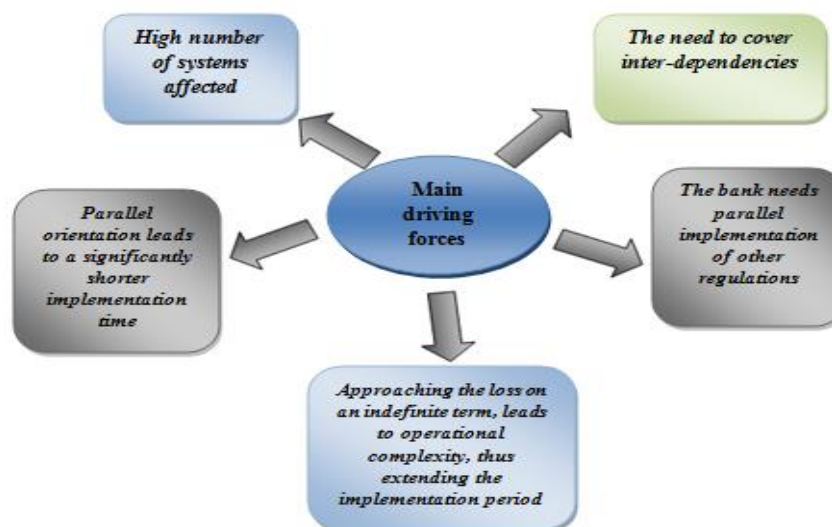
Source: (IFRS, 2013a, 303-305)

In July 2014, IASB issued the depreciation requirements stipulated by IFRS 9: *Financial Instruments*, comprising detailed instructions for acknowledging foreseen credit losses.

These requirements affected all the entities who owned debit financial assets or issued credit extension undertakings IFRS 9 (2014, 6).

If the compulsory effective date is after 2018, the implementation deadlines shall remain valid. There are many driving forces behind this, as follows:

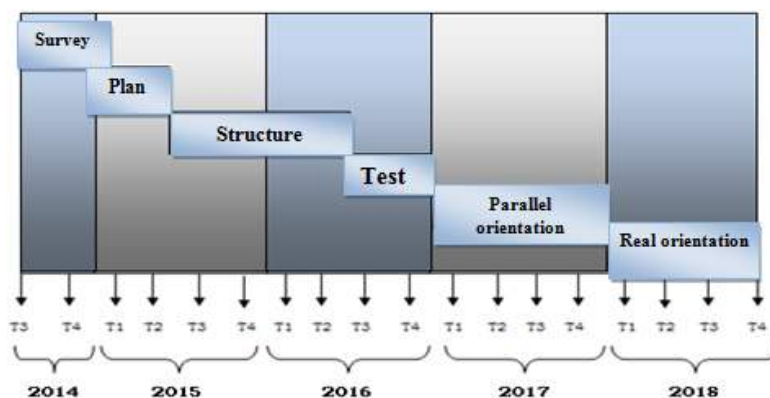
Figure no. 3. Describing the main driving forces behind the implementation of IFRS 9



Source: (IASB, 2013a, OB3)

The banking system is currently going through a mid-level stage of the management process and a well implemented structure, which are described by the figure below:

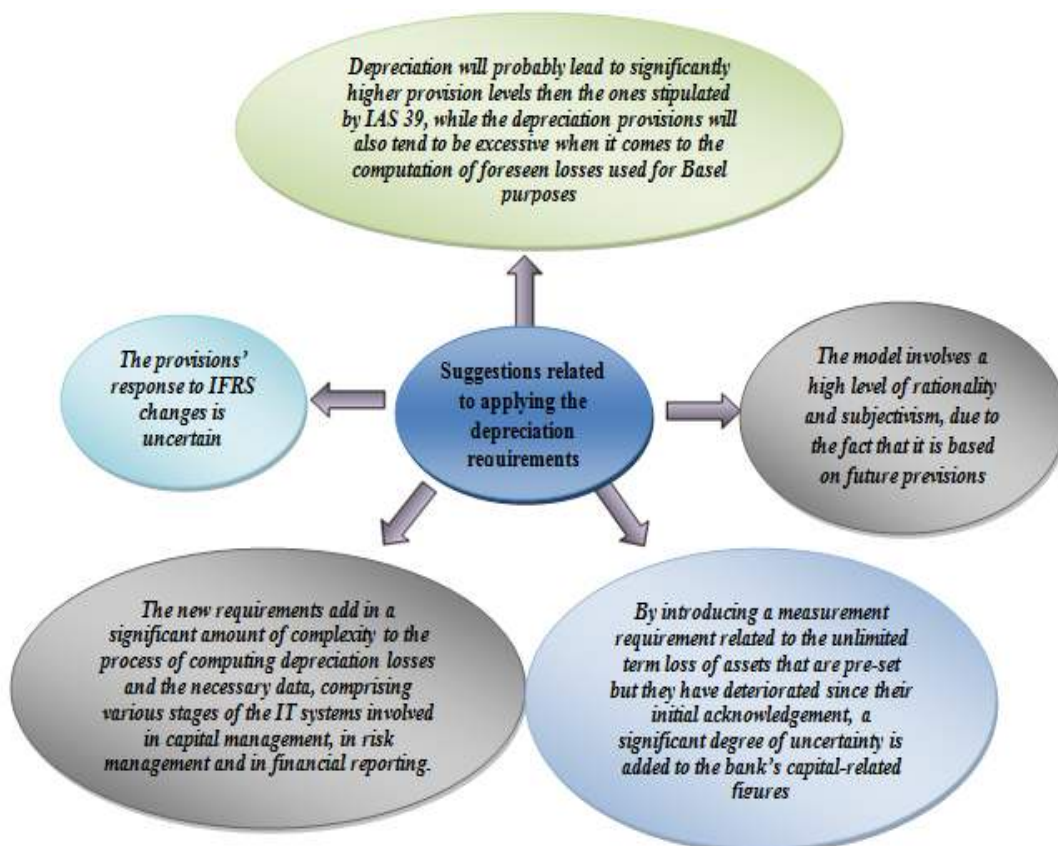
Figure no. 4. Depreciation measurement according to IFRS 9



Source: (IFRS, 2013b, 770-771)

Our analysis suggests that IFRS 9 - compliant depreciation requirements, propose the following suggestions:

Figure no. 5. Describing the categories related to the application of depreciation requirements according to IFRS 9



Source: (IFRS, 2013b, 773)

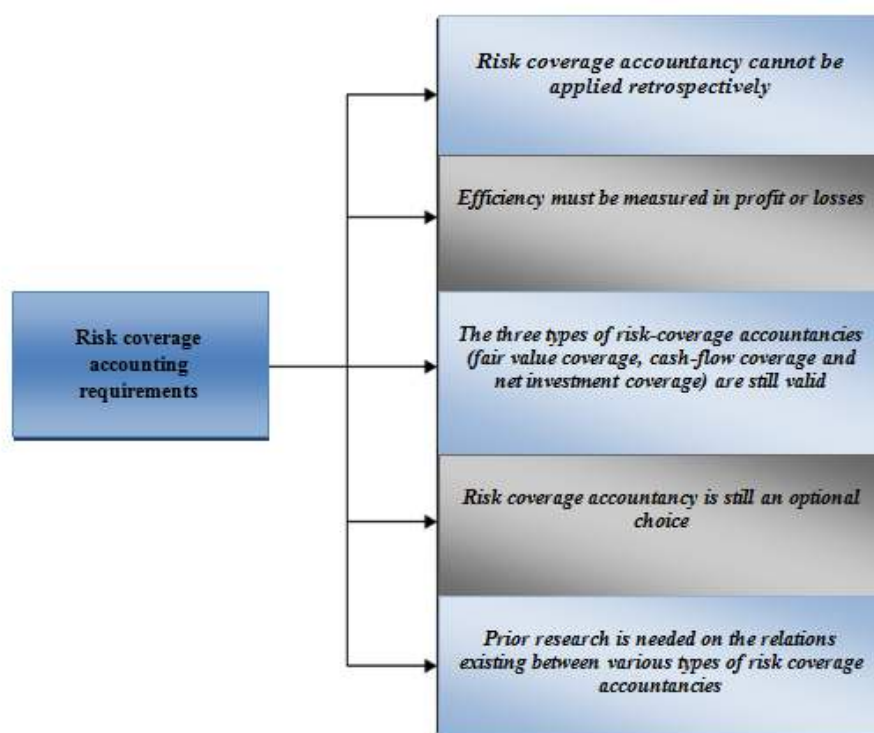
The new IFRS 9 requirements tend to rectify some of these problems, aligning the risk-coverage accountancy with other risk-management activities by means of:

- *Increasing the eligibility of both the items and the risk coverage instruments;*
- *Introducing a principle-based approach when assessing the risk-coverage effectiveness.*

Consequently, the new requirements should help reduce profit or loss volatility.

Some significant aspects of the requirements stipulated in IAS 30, remain unchanged, and they are reflected in Figure no. 6 below:

*Figure no. 6. Describing the risk coverage accounting requirements*



*Source: (IFRS, 2013a, 1132)*

The risk coverage accounting requirements stipulated by IFRS 9 should allow many entities an easier way of reflecting their current risk management activities in their risk coverage accountancy, thus reducing profit or loss volatility.

Non-financial institutions could mainly be encouraged to apply this risk-coverage accountancy, through an IFRS 9 - based approach.

#### **4. Conclusions**

The two standard implementation sections seem to prefer different models of foreseen losses.

There is an ever growing uncertainty related to the change of the results outputted by the financial instruments: compared to the conclusions drawn by previous analyses, more banks think that, the new requirements cannot be implemented in such way to increase comparability between various banks.

The high level of interest in banks' financial reporting remains unchanged, due to a large extent to the key role played by this reporting, in supporting economic activities.

There are simultaneous requests for banks to increase their capital and to borrow more, on the same time.

Besides, the recession that hit various parts of the world, the low interest rates and the significant regulation changes, lead to the conclusion that banks are forced to compete in a difficult environment.

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## Application of the Activity Based Costing System to the Wood Industry

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### Abstract

*Traditional costing methods assign indirect costs evenly, according to resource consumption by a product, while this consumption actually takes place in an uneven manner. To avoid such errors, entities seek to ensure best possible appraisal of uneven resource consumption, and the ABC method is one way of achieving this goal. The ABC method starts from the observation that it's not products that consume resources but activities, and the entity's activities are used by products. Costing through this method requires taking the following steps: identification of activities, assessment of resources consumed by each activity, determination of cost drivers and calculation of unit costs for each driver, and allocation of activity costs for each cost object.*

**Key words:** ABC method, activities, drivers, costs, expenses

**JEL Classification:** M41

### 1. Introduction

Accounting information used within production entities is subject to a process of permanent renewal. It should help establish a real production cost, based on allocation of indirect costs in an uneven manner, and modern costing methods make it possible. The ABC method is a modern method that focuses on the concept of “activity” and “cost driver”. Through this method we achieve a quantitative measurement of costs, activity performance, resources and cost objects. The concept of activity highlights the causality between the resources consumed and the products obtained, and the cost driver highlights what causes the cost of a product.

Henri Bouquin, in his book *Contabilitate de gestiune [Management Accounting]*, says that “the ABC method places in the center of the costing issue the concept of activity. Activities are administered currently and directly like products. Starting from this premise, we get to the idea that it's not products that consume resources but activities, and the entity's various activities are used by products”. (Bouquin, 2004, p.182)

### 2. Methodology

Our research aims to present the activity-based costing method as well as the calculation of costs according to this method.

As research methods and techniques, in our study we used theoretical documentation, comparison, synthesis and practical documentation. Theoretical documentation consisted in studying field literature. We used comparison when talking about allocation of indirect costs based on an even assignment according to the traditional method and an uneven allocation thereof according to the ABC method.

We used synthesis when presenting theoretical aspects, because the ABC method implies a vast field of study. We made use of practical documentation within the company when we collected data about its activity.

### 3. Theoretical aspects of the ABC method

The ABC method is a return to accounting sources. It emphasizes the need to reflect the real manufacturing and sale process and to adopt an assessment method authorizing the monitoring of costs along the way. It stresses the need to follow the movement of resources on the way relating to the different activities and cost objects of the company. The calculation of the full cost of a product is not useful unless it removes the laws of various cost categories that it integrates. (Tabără, 2004, p.63).

The construction of the costing model, according to the ABC method, requires taking the following steps:

- identification of activities;
- assessment of resources consumed by each activity;
- determination of cost drivers and calculation of unit costs for each driver;
- allocation of activity costs for each cost object (product).

In national and international field literature, due to the importance of the subject dealt with, we find a series of papers, books and articles. Thus, the ABC method is a widely debated topic in books such as: *Contabilitatea managerială [Managerial Accounting]* by Sorin Briciu; *Contabilitate managerială aprofundată [Advanced Managerial Accounting]* by Paul Deaconu, Stere Mihai, Nadia Albu and Cătălin Albu; *Contabilitate și control de gestiune [Management Accounting and Control]* by Mihail Epuran and Valeria Băbăiță; *Contabilitate de gestiune [Management Accounting]* by Henri Bouquin.

In the book *Contabilitate managerială aprofundată [Advanced Managerial Accounting]*, the authors state that the ABC system was born do to criticism of the traditional costing model that used the allocation method. According to this method, the allocation bases did not reflect the actual way in which a product consumed resources. Although the method of determining the way in which activities consume resources is based on estimates, these are distinct from the arbitrariness of allocation. In addition, to obtain a relevant cost that is not too “expensive” to calculate, there is no need for very strict monitoring of the time spent by each employee, and estimates and approximations are sufficiently accurate.

### 4. Case study of the ABC method

We conducted our ABC case study on the activity of the company “Fely Lemn S.R.L.”, which was set up in 2003 and has a total of four employees. The company’s main business activity is the manufacture of joinery and carpentry items for buildings, and it can also carry out secondary activities such as manufacture of chairs, office and shop furniture, kitchen furniture and manufacture of other furniture.

To carry out its business activity, S.C. Fely Lemn S.R.L. uses the following materials: fiberboard, wood, and accessories such as: hinges, handles, edges, wood screws. It also uses various types of machinery: cutting machines, edgebanders, planers, slitting machines, polishing machines; and hand tools: screwdrivers, milling machines, drilling machines, hot-air blower. The company manufactures and sells three categories of products: fiberboard furniture, wood (oak, spruce, cherry) carpentry and joinery items. We know the following data concerning the making of the company’s products:

*Table no.1 Presentation of expenses incurred*

Items	Fiberboard furniture	Wood carpentry	Joinery items	Total
Direct costs/expenses	13000	4500	3000	20500
Indirect production costs				8260
Administrative overheads				2000
Distribution costs				411
Quantity manufactured	12	15	300	327

*Source: practical documentation*

Analysis and grouping of activities are as follows:

*Table no. 2 Presentation of activities*

Activity	Cost	Cost driver
Raw material orders	1450	Number of orders released
Inventory management	1000	Number of types and sizes of raw materials
Preparation and release of manufacturing	1000	Number of batches released
Production	2400	Machine operating hours
Administration	2000	Costing hours
Distribution/sale	411	Number of products

*Source: practical documentation*

The following information is also available:

*Table no. 3 Cost drivers*

Drivers	Fiberboard furniture	Wood carpentry	Joinery items	Total
Number of orders released	12	3	10	25
Number of types and sizes of raw materials	2	3	1	6
Number of batches released	12	15	30	57
Machine operating hours	160	80	80	320
Costing hours	10	7	5	22
Number of products	12	15	300	327

*Source: practical documentation*

Allocation of activity costs to products:

Table no. 4 Allocation of activity costs

Activity	Cost	Fiberboard furniture drivers	Fiberboard furniture costs	Wood carpentry drivers	Wood carpentry costs	Joinery items drivers	Joinery items costs
Raw material orders	1450	12	696	3	174	10	580
Inventory management	1000	2	333	3	500	1	167
Preparation and release of manufacturing	1000	12	210	15	263	30	526
Production	2400	160	1200	80	600	80	600
Administration	2000	10	909	7	636	5	455
Distribution/sale	411	12	15	15	19	300	377

Source: practical documentation

Determination of production cost:

- Fiberboard furniture: - direct costs/expenses: 13000 lei
- indirect production costs: 3363 lei
- production cost: 13000 + 3363 = 16363 lei
- quantity: 12
- unit production cost: 16363 / 12 = 1364 lei.



Wood carpentry: - direct costs/expenses: 4500 RON  
 - indirect production costs: 2192 RON  
 - production cost: 4500 + 2192 = 6692 RON  
 - quantity: 15  
 - unit production cost: 6692 / 15 = 446 RON.

Joinery items: - direct costs/expenses: 3000 RON  
 - indirect production costs: 2705 RON  
 - production cost: 3000 + 2705 = 5705 RON  
 - quantity: 300  
 - unit production cost: 5705 / 300 = 19 RON.

The records related to production are as follows:

- record of direct costs/expenses

921	=	901	20500
921 furniture			13000
921 carpentry			4500
921 joinery			3000

- record of indirect costs

923	=	901	8260
923 furniture			3363
923 carpentry			2192
923 joinery			2705

- record of administrative overheads

924	=	901	2000
-----	---	-----	------

- record of distribution costs

925	=	901	411
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- record of allocation of indirect costs, administrative overheads and distribution costs

921	=	%	10671
		923	8260
		924	2000
		925	411

- calculation and settlement of actual costs relating to the finished products obtained

902	=	921	31171
902 furniture		921 furniture	17737
902 carpentry		921 carpentry	7253
902 joinery		921 joinery	6181

## 5. Conclusions

Activity-based costing is one of the latest achievements in the field of costing. The concept of this method starts from the observation that it's not products that consume resources but activities, and the company's various activities are used by products. Therefore, it is better to use the company's allocation for each activity and not for each function and product. Work units are replaced by cost drivers that are not necessarily quantitative criteria, but elements that trigger activities and thus generate costs.

The ABC calculation system was born due to criticism of the traditional costing model, which used the allocation method. According to this method, the allocation bases did not reflect the actual way in which a product consumed resources. The traditional cost management system was unable to cope with changes occurred in the economic environment. To continue using it would have meant leaving untracked about 70% of the entity's resources, which would certainly have led to failure in an extremely active competitive environment.

The ABC method helps entities identify significant opportunities to reduce cost and increase profit through repricing in unprofitable customer relationships, improve processes, decrease product design costs and streamline the list of products. Its widespread potential is a great opportunity for companies.

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## Managing a "N" Securities Portfolio

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### Abstract

*The financial market is characterized by circulating an impressive volume of data to be incorporated into financial decision in a very short time. Gathering and processing this data would be impossible without the level of performance the computer systems have nowadays. Excel management program used for this application, has the necessary functions for using any econometric model, data being processed in a current stream due to the possibility of the correlating the database with the subsequent stages up to the final stages.*

*For the application that will be described below, namely the management of a portfolio of eight security bonds, a financial analyst should carry more than  $10^{15}$  computing operations. The demonstration focuses on the analysis of results and on summarizing the concepts used.*

**Key words:** efficient border, capital market line, capital asset pricing model.

**J.E.L. classification:** F30, G01

### 1.Introduction

The object of analysis are the securities traded at BSE, taking into account a value that we considered to be significant both for the reasoning underlying the investment decision and for demonstrating the usefulness of portfolio management methods.

*Selection of the securities* included in the portfolio was based on the following considerations(Vlad C., 2015,113):

- Statistical data were analysed for the last two years, although the international practice recommends a five-year period of time. We considered that the transformations occurred on the Romanian capital market make insignificant the statistical data for longer periods of time.
- Financial investment companies that have not defined sectorial representation have been excluded.
- The minimum number of trading days each year = 200, to meet the liquidity requirement.
- Achieving the possible maximum of the sectorial diversification.
- Positive returns corresponding to a rational behaviour.

### 2.Markowitz efficient border.

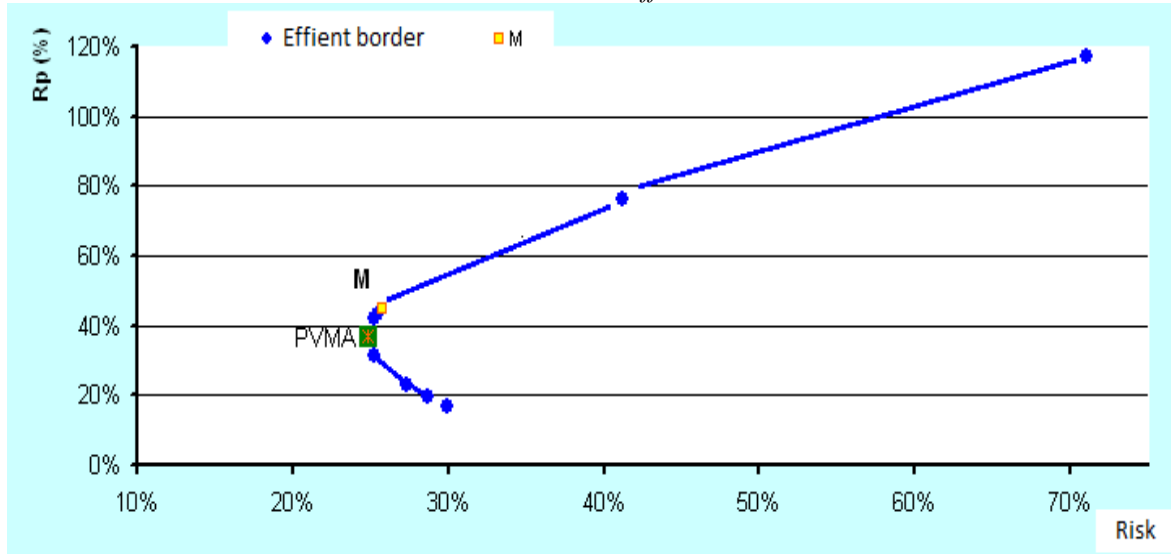
Setting up the model started from the premise that the total elimination of specific risk through diversification is possible by studying the correlations between securities and not necessarily by the number of securities titles. This observation takes into account the fact that different industries evolve in the opposite way, the beneficial effects of a sector has adverse effects on other sector. If the correlations between securities are weak the diversification effect is big (Stancu I,2010,295).

Starting from the idea of a direct relationship between the "assumed risk and the maximum return possible" Markowitz divided efficient and inefficient portfolios. Efficient portfolios are complying with the requirement of maximizing the value of the capital for the assumed level of risk.

Given that the selection of the portfolio is dominated by the attitude towards risk there has been drawn the segment on which to place all categories of investors:

- ✓ optimal portfolio (PVMA) corresponding to the lowest risk for a given return;
- ✓ the point where the marginal return is zero (M), over which, in an objective manner, cannot be obtained higher unit returns regardless of the assumed risk.

Chart no.1. Markowitz efficient border



Source:(Vlad C., 2015,115)

A remark should be made regarding the location of the higher limit of the efficient border in comparison with the highest individual return. Higher profitability requirement restricts the possibilities of portfolio diversification leading to increased risk by adding a portion of the specific component. Therefore, the upper limit of effective border is below the maximum individual return. Plotting efficient border is determined by full investment of available capital and by the portfolio credit position ( $x_i \geq 0$ )(Stancu I,2010,297)..

Analysis of the chart no. 1 data presents the following situation:

Four portfolios (SNP, TVL, OIL, AMO) are placed under PMVA, fact which is confirmed both by the achieved returns and by the return-risk ratio. PMVA and the M market portfolio have almost equal risks (25% and 26%) but they have different profitability. This means that it makes sense to consider the risk-averse market portfolio as optimal. For the same risk the M portfolio provides a unitary return of 1.73 which is superior to that of PMVA of 1.48.

In terms of structure, among the portfolios located on the efficient border two (PTR and BRD) are illegitimate meaning that they calls for the elimination of some securities and investing in others. Investments with negative weight are those with the lowest returns, which logically cannot contribute to achieving high returns as required by the two portfolios.

The risk is proportional to the returns achieved for the portfolios located on the efficient border.

Note that the efficient portfolio with the highest return, BRD, ensures the lowest consistent return (1.64). The explanation is that it has the highest risk due to the reduced diversification opportunities, only four security bonds. OLT and BRD portfolios realize very close returns and risks, being the only legitimate portfolios, thus having the maximum of diversification.

Structurally, the lowest weight is given to BRD security bond which is the most cost effective but also the most risky. Noteworthy is the fact that OLT and ATB portfolio risk values being close of the ones of PVMA, makes them attractive to risk averse investors.

### 3.Capital market line (CML).

Its starting point is the efficient border pattern. Correlations taken into account are no longer the ones between the securities, but between them and the market as a unifying factor. Security-market relationship is bivalent: the market triggers a certain risk for the security, which in turn has a particular contribution to the overall risk.

In addition, in the equation is also introduced the risk-free asset as a reference for the effectiveness of the portfolios.

Thus the created portfolio can be assimilated to a portfolio composed of two securities, one without risk but with a lower return and a risky one that provides a return proportional with the risk exposure.

The optimum weight (x) results from the following equations (Lumbi S., 1994,312) :

$$X_{Arisc} = \frac{R_i - R_M}{R_f - R_M}$$

$$X_{Rf} = 1 - X_{Arisc}$$

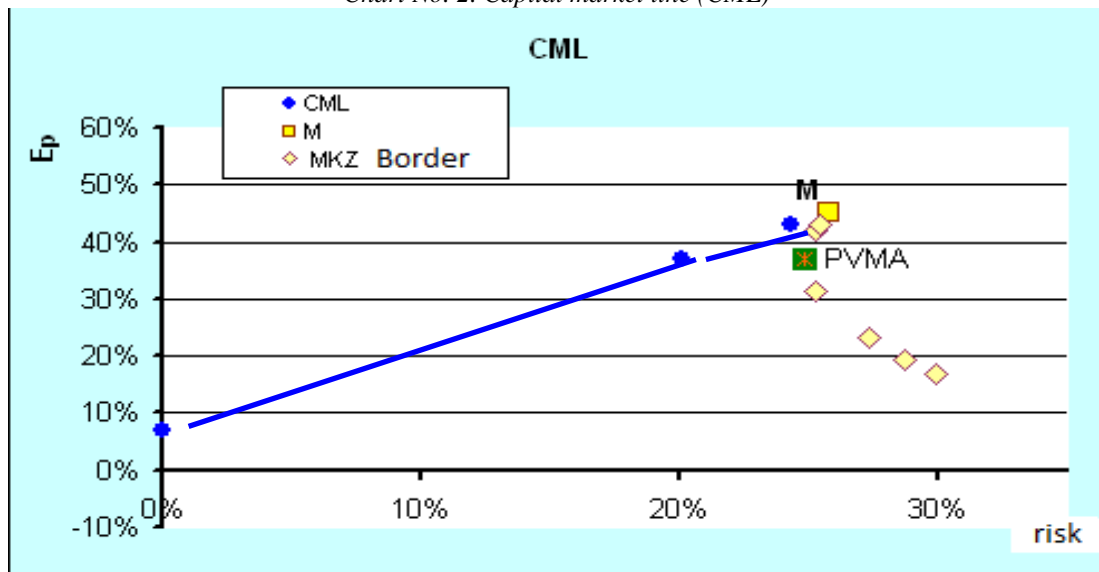
Where:  $R_i$  - Return of the risky security;

$R_f$  - Return of the risk-free assets;

$R_M$  - Return on market portfolio.

As shown by the above formulas, the market line has two key indicators: risk-free asset ( $R_f$ ) and point **M** representing the market portfolio determined by the Markowitz efficient border. Point **M** divides the creditor portfolios located within the range[ $R_f - M$ ] from the debtor ones located above point **M**. Accepting debtor portfolios removes the restriction imposed by Markowitz efficient border, allows full of capital investment, and help increase the volume of investments by borrowing at the interest rate of the risk-free asset. In fact such loans are not possible, but there can be introduced corrections of the portfolio return ( $E_p$ ) namely the difference between the effective interest rate of the loan ( $R_d$ ) and the one of the risk-free asset:  $E_p - (R_d - R_f)$

Chart No. 2. Capital market line (CML)



Source:(Vlad C., 2015,117)

Identification of the debtor portfolios can be done according to the following criteria:

- Risky assets with negative weight;
- The risk of the  $i$  portfolio larger than the one of portfolio larger than **M** ( $\sigma_i > \sigma_M$ ) portfolio.

The position of the portfolios on the market line is dominant compared to those on the efficient border except point **M**, the common point, as they should be considered only for the market risk, the specific risk being eliminated through diversification. Using the same portfolio of securities, to demonstrate the structure of the capital market line have been selected three portfolios on Markowitz efficient border

As a risk-free asset ( $R_f$ ) due to a weak issue of government securities in Romania have been analysed bonds issued on the domestic market by the European Investment Bank with an interest

rate of 7%, ranked in "0" risk class (AAA). 7% interest rate is close to the average interest rate on deposits used in the banking sector. It is shown that two portfolios (PMVA and ATB) are creditor portfolios, but containing a small percentage of risk-free assets (22% and 5%).

Reaching the other two return objectives (BRD and PTR) is possible only through loans from risk-free interest rate (7%). In real, these portfolios will bring the following returns considering a 12% interest on loans:

$$E_{BRD} = E_{Rf} - (Rd - Rf) = 117 - (12 - 7) = 112\%$$

$$E_{PTR} = E_{Rf} - (Rd - Rf) = 76 - (12 - 7) = 71\%$$

The introduction of the risk-free asset has produced structural changes compared with the efficient border, and in the BRD case it indicates the same insufficiency of the diversification opportunities. The substantive changes determined by the risk-free asset target the risk and unitary return.

Table no.1. Comparison between the unitary risks and returns (CML / SML)

Running no	Indicators	PMVA	$E_{BRD}$	$E_{PTR}$	$E_{ATB}$
1.	$\sigma_{CML}$	20	74	47	24
2.	$\sigma_{Efficient\ border}$	25	71	41	25
3.	Dif. (1-2)	- 5	+ 3	+ 6	- 1
4.	$E_p / \sigma_{CML}$	1,85	1,58	1,61	1,79
5.	$E_p / \sigma_{Fr.efic.}$	1,48	1,64	1,85	1,72
6.	Dif. (4-5)	+ 0,37	- 0,06	- 0,24	+ 0,07

Source:(Vlad C., 2015,118)

Corresponding to the risk changes there occur unit return changes in the same direction. The portfolios with the highest returns (BRD and PTR) have recorded an increase of the risk, as the appropriate diversification cannot be achieved.

#### 4. Capital Asset Pricing Model

The model brings together in a unitary manner the achievements of the financial of science in the 60s. The essence is to establish a linear relationship, a line of the financial securities (SML), between the expected return of a quite diversified portfolio and market risk[3].

$$E_i = Rf + \beta(E_M - Rf) \text{ where:}$$

$E_p$  - The hope of portfolio return;

$R_f$  - Risk-free asset interest rate

$\beta$  - Volatility coefficient of the securities relative to the capital market

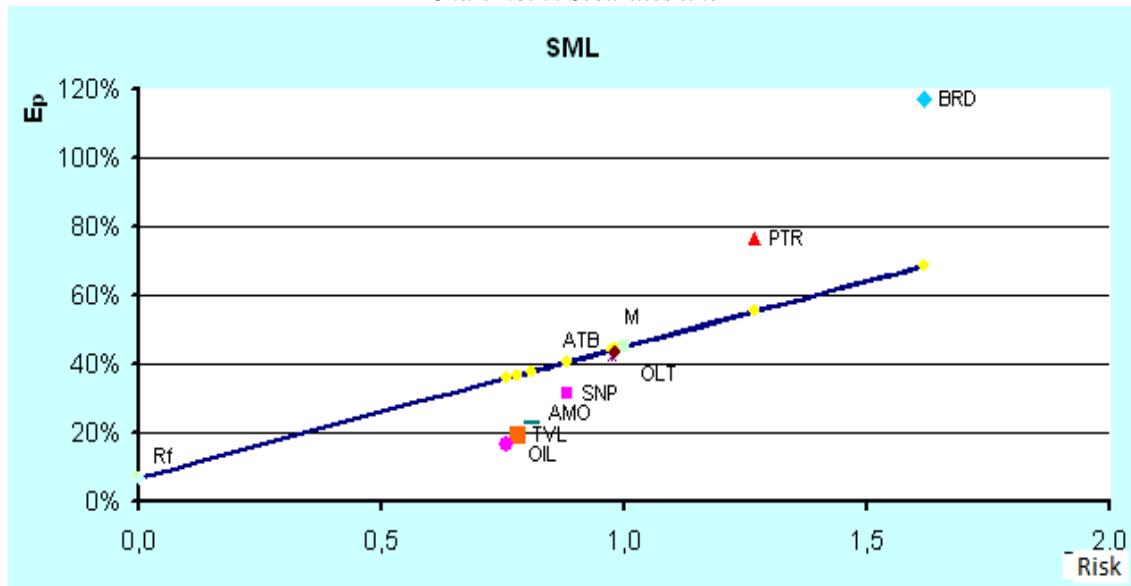
$E_M$  - Market return

The difference between the market return and risk-free asset ( $E_M - Rf$ ) is the reward of the investor for the systematically taken risk, after having first made an appropriate selection of the securities in his portfolio to assure the elimination of their specific risk. Financial securities line set up pursuant to the rule of the return of securities indicated by CAPM, is the reference for the way in which the investor should act. Pursuant to "Jensen's equality" the prices of the securities tend to standardize with the market and therefore the securities situated above SML are sold, being overvalued and those located under the line are bought because they are undervalued. Pursuant to the arbitration conducted between the two categories of securities the maximum return of the portfolio can be achieved.

The application created for the portfolio selected by BSE reveals a large area where securities are located. ATB, OLT securities and the portfolio M are located on SML. BRD and PTR securities

are overvalued, and the other are located in the in the area of undervaluation. Arbitration is generally limited as overvalued securities represent only 24% of the portfolio.

Chart No. 3. Securities line



Source:(Vlad C., 2015,119)

The return of the securities calculated using the CAPM model is used as an update rate for calculating the VAN. Among the analysed securities only those with the highest returns (BRD and PTR) had a positive net actuarial value. The same indication results by comparing the market  $E_{CAPM}$  with the internal rate of return (IRR), the latter being higher for the two aforementioned securities. The comparison between the two returns, namely of the market and of the investment project, is very important because it reveals the security-market interdependence(Halpern P. et al, 1998,496).

In other words, the individual is compared with the real possible remuneration of the market. The rate  $E_{CAPM}$  can be used both for pass / fail decision and for substantiating the market action: sale / purchase of securities according to their position on the capital market line.

### 5.CAPM has zero $\beta$ .

This version is designed to supplement the practical shortcomings for identifying a risk-free asset as the reporting basis for calculating the risk premium[2].

$$E_i = E_z + \beta(E_M - E_z)$$

The portfolio, consisting of hypothetical risky assets, must provide a maximum diversification, including for the disposal systematic risk. Studies conducted on various combinations of portfolios of BSE securities emphasize the fact it is tough to identify a risk-free portfolio. For values of  $\beta$  above 0,02 the return of the portfolio is negative and is therefore not logical to take it into account. The portfolio chosen for exemplification has  $\beta = 0.07$  and  $E_z = - 0.289\%$ .

The cause is the fact that not in many cases an appropriate structure for the total elimination of market risk can be achieved. Basically, the portfolio return with  $\beta_0$  must be situated between a macroeconomic benchmark (inflation, bank interest, etc.) and PMVA.

The accuracy of the models applied has been tested by introducing securities with negative returns in the portfolio. It results from the analysis of efficient portfolios that such securities are insignificant or it is recommended to sell them (negative weights).

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# The Romanian Healthcare Institutions – Managing Budget Limitations and Liquidity Issues

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## Abstract

*The paper aims to determine if the public healthcare institutions in Romania (particularly in Constanta County) manage the budget limitations in terms of the level of incomes and expenditures, and if these institutions manage to insure the proper level of liquidity in order to satisfy the entity's creditors for exigible debts. In order to achieve these objectives, we calculated and analyzed the three indicators of liquidity (working capital - required working capital - net treasury) and in order to identify the degree to which the entity can cope with its short-term debts we used a system of liquidity rates. The findings of the research show heterogeneity in the management of the healthcare institutions and different situations in terms of achieving financial equilibrium.*

**Key words:** healthcare institution, liquidity, working capital, financial equilibrium

**J.E.L. classification:** I18, G00

## 1. Introduction

The management of the healthcare institutions represents a particular situation in exercising the management functions because the manager must consider all the principles of an effective management of the resources at their disposal without having the main objective of achieving a surplus (corresponding concept of profit) as in the case of a commercial company but to maximize the results of the activities developed (Gapenski, Louis C, 2007, 3).

Management must succeed primarily in maintaining equality between incomes and expenditures bearing in mind that for the public healthcare institutions the incomes, in their majority, are not a consequence of the carried out activity's efficiency but they have a value widely known, the amounts being allocated from the state budget.

On the other hand, the manager must monitor the spending of the income allocated without ignoring the possibilities of earning supplementary incomes, in which case the production process must be thought in the light of all economic considerations taken into account in the management of a company. In the last two decades the public healthcare institutions tended to become more independent in terms of resources finding, increasing the efforts to develop economic activities in order to obtain incomes to increase the amounts allocated from the state budget (Kulkarni at al., 2009, v).

For this reason, it is essential, for managerial decision making, that the decision-makers are able to analyze the financial structure of the entity, to follow the evolution of the results and to analyze the level and the significance of the liquidity indicators.

The objective of this paper is to determine if the public healthcare institutions in Romania (particularly in Constanta County) cope with the budget limitations in terms of incomes and expenditures, and if these institutions manage to insure the proper level of liquidity in order to satisfy the entity's creditors for exigible debts.

## 2. Research methodology

In order to achieve the objective of this research we analyzed two public healthcare institutions from Constanta County: CF Clinical Hospital Constanta and Techirghiol Sanatorium. The choice we made regarding the entities was based on the availability of the financial data necessary for the research and the profile of the institutions selected.

We used the financial data from the balance sheet and the result account of the entities for the 2009 – 2014 period.

The financial health of an entity can be assessed correctly and completely by analyzing the triad working capital - required working capital - net treasury.

These indicators underline the analysis liquidity-exigibility and represent important milestones for the management of institutions especially in the case of healthcare institutions financed from the state budget, and allow to take decisions on short, medium and long term so that its debts can be paid.

The working capital indicator is considered the most important indicator of the financial equilibrium as it makes the link between the two parts of the financial balance sheet showing the balance between long-term and short-term financing.

The degree to which the entity can cope with its short-term debts is given by a system of liquidity rates:

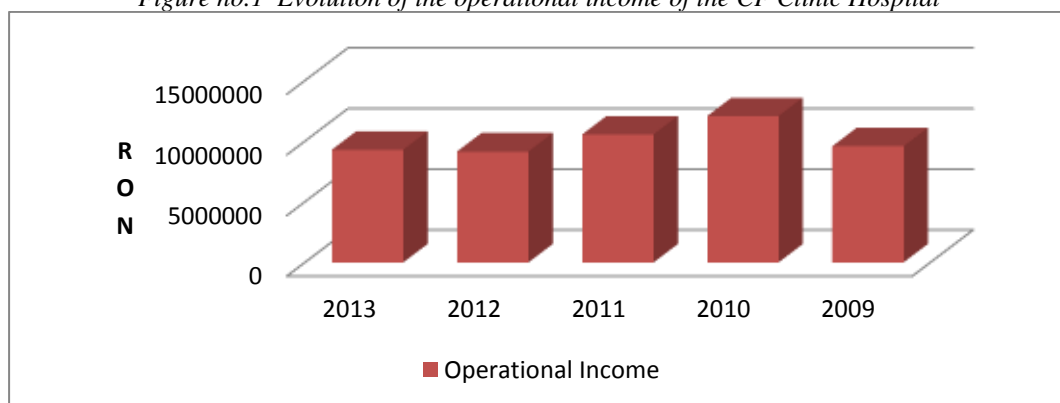
- Current liquidity rate (= Current Assets / Current Liabilities (with exigibility under one year));
- Reduced liquidity rate ((Current assets - Stocks) / Current Liabilities (with exigibility under one year)).

## 3. Income – expenditures – outcome – a comparative analysis

In this section we analyze and compare the incomes and the expenditures for the two healthcare institutions taken into consideration in order to observe if for the period selected they manage to maintain the equality between resources and needs following the budgetary limitation as public institutions.

Analyzing the results obtained by the CF Clinical Hospital for the period 2009-2013, as provided by the result account shows that, with the exception of 2011, the institution was unable to cover the costs with the income, income - expenditures equality as a goal of public institutions mainly financed from the state budget could not be reached.

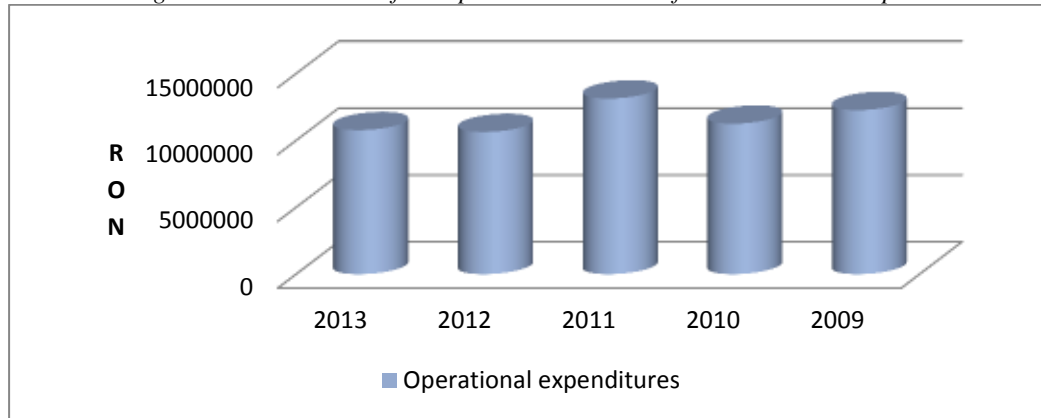
Figure no.1 Evolution of the operational income of the CF Clinic Hospital



Source: Authors' calculation based on the financials reports of the entity

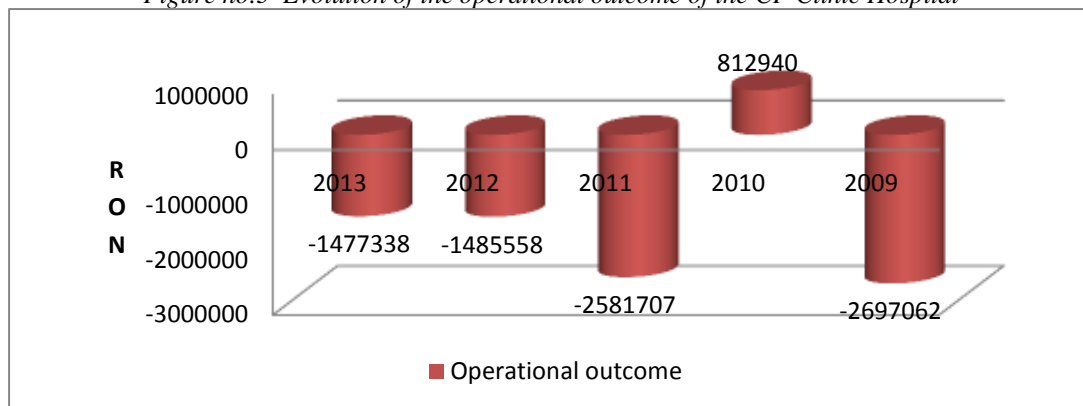
Incomes level and operational expenditures registered the hospital in 2009-2013 have led to a negative operating result in all the years analyzed, with the exception of 2010. The deficit of the hospital was more than 2,7 million lei in 2009 and a minimum 1.477 million lei in 2013. The only year the hospital recorded a surplus of 0.8 million lei was 2010 as shown in the figures below.

Figure no.2 Evolution of the operational income of the CF Clinic Hospital



Source: Authors' calculation based on the financials reports of the entity

Figure no.3 Evolution of the operational outcome of the CF Clinic Hospital



Source: Authors' calculation based on the financials reports of the entity

The analysis of the balance sheet components of the CF Clinical Hospital Constanta for the 2009-2014 period shows that the financial structure of this institution is not very strong marked by fluctuations in the assets value and the equity capital.

The entity enjoys relatively stable non-current assets while the current assets decreased during the period under review. That element is not necessarily a negative one because their reduction is largely due to the reduction of stocks which improves the financial situation of the institution because stocks are generating the extra costs.

A positive aspect to note is the significant reduction of the hospital debts in 2014 which helped increase equity capital value showing an improvement in the financial situation of the hospital.

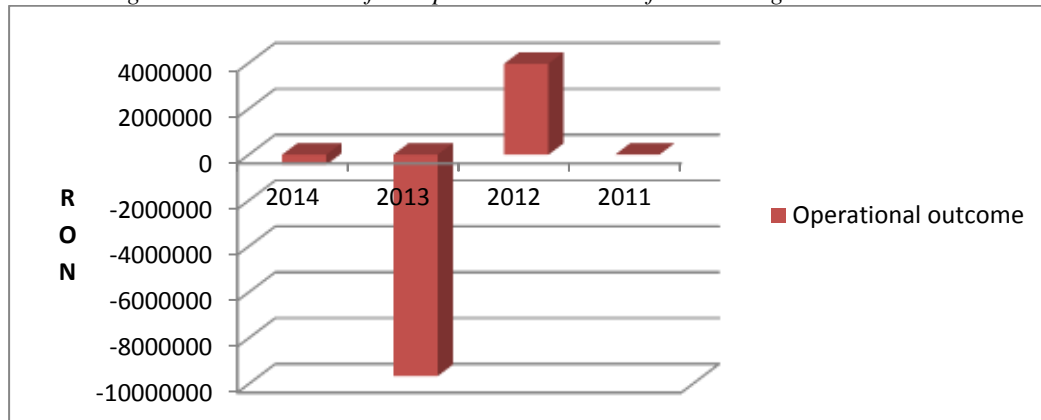
Figure no.4 The evolution of the total assets and liabilities of the CF Clinic Hospital



Source: Authors' calculation based on the financials reports of the entity

The analysis of the income and the operational expenditures of the Techirghiol Sanatorium, conducted during 2011 – 2014 period, indicates that the institution’s activity has registered a nonlinear evolution in terms of the operational outcome level. In the four years considered in the analysis it can be noted that in two years there was a deficit and a surplus in the other two. The deficit recorded in 2013 is the largest, of more than 9.5 million lei, while in 2014 it was reduced to less than a half million lei. 2012 was the year with the most effective activity recorded, with a surplus of nearly 4 million lei as shown in the figure below.

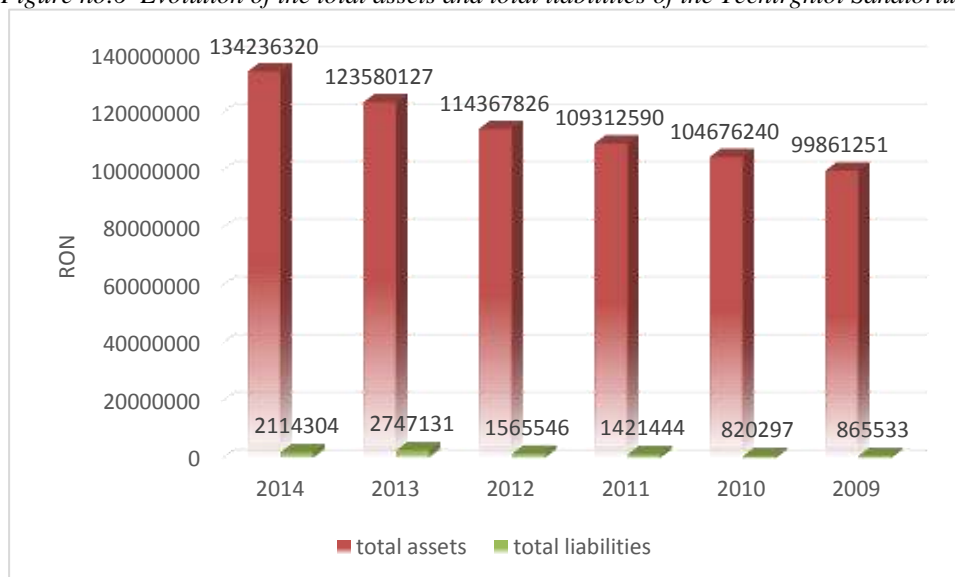
Figure no.5 Evolution of the operational income of the Techirghiot Sanatorium



Source: Authors’ calculation based on the financials reports of the entity

Although 2014 has brought the highest incomes for the sanatorium comparing all the four years analyzed, the strong growth of the expenditures has led the fiscal year to be ended in deficit.

Figure no.6 Evolution of the total assets and total liabilities of the Techirghiot Sanatorium



Source: Authors’ calculation based on the financials reports of the entity

The synthetic situation of the total assets and liabilities (shown in the figure above) recorded annually by the sanatorium show a favorable overall situation of the healthcare unit with an increasing trend of the total assets and a relatively stable level of debts but with a much lower value. Under these circumstances, the value of the equity capital has been growing steadily from nearly 99 million in 2009 to over 130 million lei in 2014.

#### 4. The liquidity triad and the liquidity rates

In order to assess the quality of the financial management of the two healthcare institutions we have conducted, for the 2009-2014 period, an analysis of the values and the evolution of a system of synthetic indicators used in the exigibility - liquidity analysis and two liquidity rates used in the financial analysis.

Based on the information from the financial reports for the two institutions we have calculated three indicators: working capital - required working capital - net treasury.

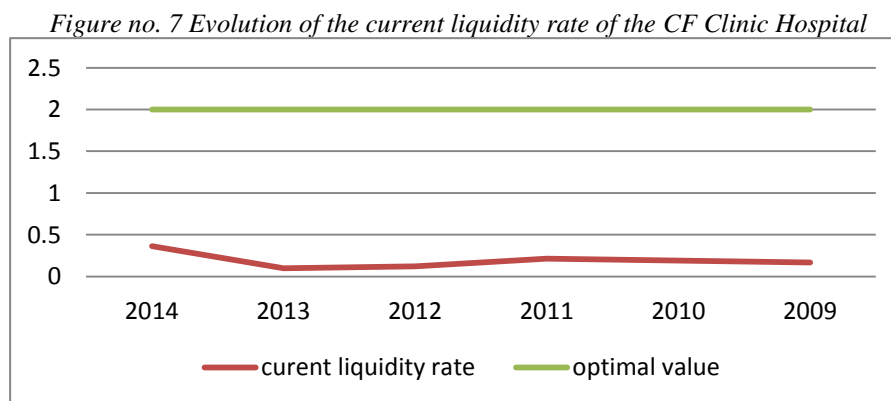
For the CF Clinical Hospital Constanta the analysis showed that the institution was in a financial disequilibrium as a negative working capital was registered for the entire analyzed period and proves that the hospital could not comply with one of the rules to ensure the financial health - permanent needs to be covered by permanent resources. In this case, a part of the permanent needs is covered by the temporary resources that are available because the temporary needs are less than the temporary resources, a situation proven by the positive value of the net treasury throughout the period.

Analyzing the indicator required working capital we can see that its value is negative for the entire period analyzed showing a surplus of the temporary resources, corresponding to the needs of circulating capital, or temporary needs smaller than temporary resources. This is a case frequently encountered in the case of entities with commercial activity due to the higher supplier loans compared to the customer loans. In this case, negative required working capital is a temporary source that should not be financed, but on the contrary, it will finance the working capital and treasury.

Following the analysis carried out to determine the general liquidity of Techirghiol Sanatorium we found that the synthetic indicators of the liquidity are all positive and with relatively stable values which indicate that the entity is characterized by financial equilibrium as the permanent resources are sufficient to cover the permanent needs and the temporary needs are greater than the temporary resources, but this situation is often seen for those entities providing services.

The analysis of the three liquidity indicators was completed by the calculation and the analysis of the current and reduced liquidity rates.

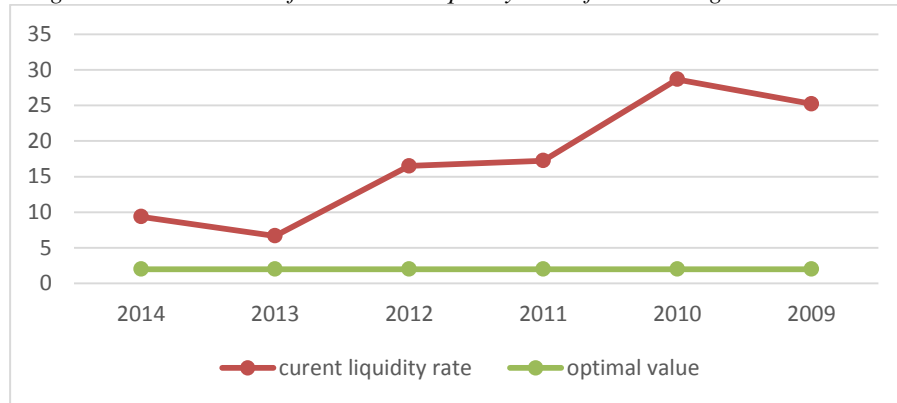
In the case of the CF Clinical Hospital Constanta we found that, throughout the analyzed period, the current liquidity rate is below par and with a nonlinear trend. By comparison with the level considered optimal level we note that they are much lower, as shown in the figure below.



Source: Authors' calculation based on the financials reports of the entity

The current liquidity rate for the Techirghiol Sanatorium is above par for the analyzed period. Comparing the values obtained with the level considered optimal we observe that they are much higher as can be seen in the figure below.

Figure no. 8 Evolution of the current liquidity rate of the Techirghiol sanatorium



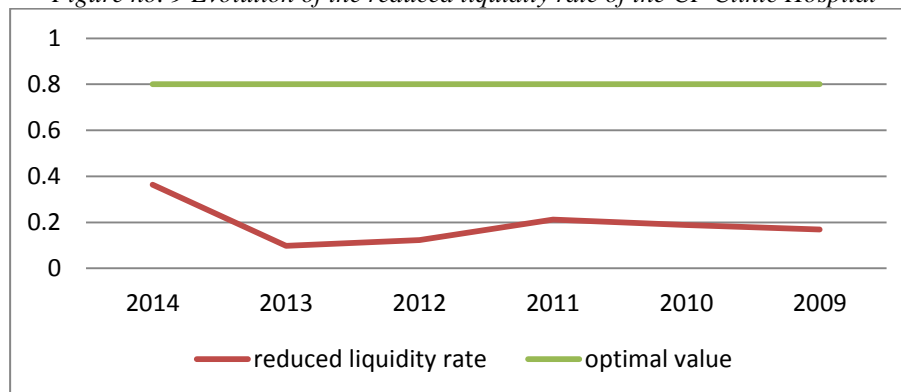
Source: Authors' calculation based on the financials reports of the entity

Regarding the analysis of the liquidity evolution is not sufficient that the ratio is above par, but its trend is necessary to be ascending. A descending trend of the liquidity rate illustrates a declining activity, and represents an indicator for creditors to be cautious in granting new loans.

Calculating the reduced liquidity rate for the CF Clinical Hospital Constanta for the period 2009 -2014 we noted that values are much lower than the minimum of 0.8 accepted by the literature as proof of a creditworthiness within normal parameters for a healthy economic activity, as can be seen in the figure below.

Values rate below unit highlights the fact that the stocks are financed by short-term debt.

Figure no. 9 Evolution of the reduced liquidity rate of the CF Clinic Hospital

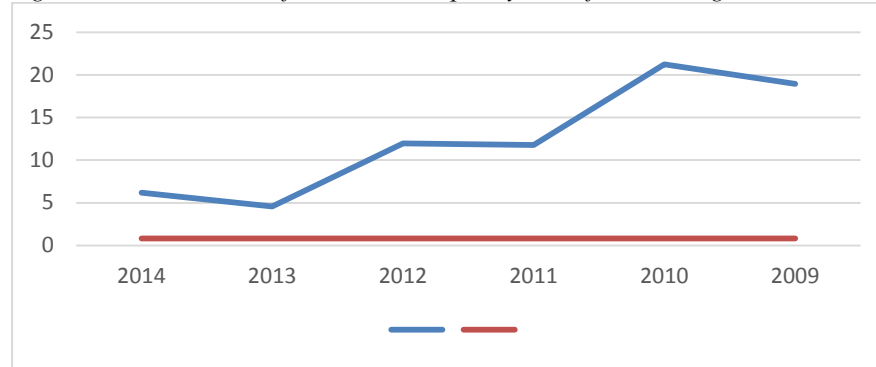


Source: Authors' calculation based on the financials reports of the entity

The reduced liquidity rate for the period by 2009 -2014 registered values above unit but that rate was declining. Comparing the values obtained with the level considered optimal by the specialists (between 0.8 and 1) we observed that they are much higher as it can be seen in the figure below.

Rate value above unit highlights that the stocks are not financed by short-term debt (or just by advance payments received from customers). In general, the report is below unit and does not cause difficulties, given that the institution has healthy stocks and correct cash flow forecasts.

Figure no.10 Evolution of the reduced liquidity rate of the Techirghiol sanatorium



Source: Authors' calculation based on the financials reports of the entity

The analysis of the two liquidity rates reveals different situations for the two healthcare institutions.

For the CF Clinical Hospital Constanta we have found, on the one hand, that their values were much smaller than those considered optimal and, on the other hand, their nonlinear evolution showed that the current activity of the healthcare unit from one financial year to another is conducted with syncope between receipts and payments and can be considered an alarming situation.

Analyzing the same two rates for the Sanatorium Techirghiol, the values obtained for current and reduced liquidity rates are above unit and much higher than the levels considered optimal so we can conclude that the sanatorium has the ability to pay its debts at maturity.

## 5. Conclusions

The overall conclusion we reached after the undertaken research is that the managerial approach to financial management for the institutions analyzed is different with different effects on the achieved results.

We can state that Techirghiol Sanatorium benefits from a proper financial management of adequate to the activity's particularities as the healthcare institution managed to ensure a financial equilibrium and sufficient liquidity to meet its financial commitments.

In the case of the CF Clinical Hospital Constanta we can appreciate that the institution's financial management can be improved in terms of a better timing of receipts and payments to permanently ensure the capacity to cover exigible debts. On the other hand, the deficit registered by the hospital in most years of the analysis shows that either the assigned incomes are insufficient for the expenditures caused by the human resource, materials and supplies necessary for carrying out the operational activity and it is necessary to increase them if the services provided by hospital justify it either it is necessary to resize the expenditures in line with the level of income.

To get a more comprehensive picture on how the healthcare institutions manages its resources future research will consider a greater number of institutions with different profiles.

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