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**THE INTERNATIONAL CONGRESS:  
ACCOUNTING CHALLENGES IN THE GLOBAL BUSINESS  
ENVIRONMENT**

***Workshop: New trends in accounting and their implications for the global  
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**Section I**  
**International Affairs and European Integration**

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

## Been There, Done That, Bought It! - Economic and Cultural Impacts of Mass Media on Consumption

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### Abstract

*The purpose of our present paper is to investigate different aspects connected to mass media consumption. Since the variety of these aspects and the extent of their impact is considerable, we decided to start from the relationship existing between needs and desire and to further extend our investigation to compulsive buying's functional purpose and its undesired negative impact on the subjects lives.*

**Key words:** consumer, compulsive buying, economic impact

**J.E.L. classification:** Y8

### 1. Introduction

The relationship between cultures and goods is based on interdependence. Grant McCracken states in *Culture and Consumption* that: 'One of the most important ways in which cultural categories are substantiated is through the material objects of a culture... [objects are] created according to the blueprint of culture and to this extent they make the categories of this blueprint material' [1]

Out of all forms of mass-media, television has had the greatest impact on people's lives, opinions and behavior. Narrative entertainment television is perhaps the most common form of entertainment. It is all about stories, and we all love stories ever since childhood. These stories are meant to run an entire range of emotions- therefore, they can be gripping, arousing, or amusing. Being accustomed to storrtelling and consequently to their inner stucture, most often we become entrapped by them, some of us are even transported into them. Nevertheless, we should be aware about the fact that they are just stories- meaning fictional structures,

sometimes fantastical, and, as a result, they should have little effect on us while we view them. But, reality contradicts this common sense idea, and there is actually considerable evidence to the contrary<sup>[2]</sup>. In psichological terms, things go like this, the programs we watch on television, even the fictional ones, do have enduring effects on us, as every piece of information our brain processes is stored in our , minds drawers' for potential use later.

At this stage, we consider useful to investigate the cultivation theory, this theory examines media content with particular outcomes. It has two components- the first part states that television programs content introduces a systematic distortion of reality. Meaning that the world as it is reflected in television productions differs in important and in some cases dramatic ways from the real world it is based on. In order to impress and capture the viewer's attention, the world of television has the tendency to be more affluent, more violent, more maritally unfaithful, and more populated with certain type of professions such as doctors, lawyers, and police officers, than the real world.

The second part of the cultivation theory states that repeated viewing of these distorted images eventually leads to their internalization. Our entire mental structure based on values, attitudes, beliefs, and perceptions is consequently adjusted to the world as it is portrayed on television. The internalization of the television message may lead to the learning of television "facts" and "realities", triggering a consequent behavior. Unfortunately what is forbidden is more attractive to viewers, and the rating grows while the channel gains more money from advertising companies. We should bear in mind that mass media displays not only violence, but also nudity, sex, racism and behavior that are not proper and normal<sup>[3]</sup>. As a result consumer's basic needs and desires are skillfully exploited. In what follows we

shall try to have a close look at the intricate relationship between needs, desire and consumption.

## 2. Who Needs A Streetcar Named Desire?

Etymologically, the Latin *desiderium* meant the grief for the absence or loss of a person or thing. The verb form, *desiderare* is to desire, to long for. This sense of longing was associated with the stars: a yearning for the unreachable stars. *Sidus* means "star" and the verb *desidiris* refers to "expecting from the stars." The verb "consider" is closely allied to desire: *con-siderare* translates "to look closely at something, to contemplate," and originally it meant "to observe the stars." To enter the realm of desire cannot help but lead us into a relationship to what is all at once brilliant, attractive, and out of reach... Desire introduces us to an impossible situation—impossible of absolute fulfillment<sup>[4]</sup>.

With that distance of the stars, appetite (from *appetere*=to seek for, to strive after) or desire does not refer to physical fullness or emptiness and thus satisfaction is not the physical noticing of emptiness or fullness, not having our so-called "needs" filled. Simmel's views are consistent with Jager's. Simmel considers the distance between the subject and object to represent desire. He says, "we desire objects only if they are not immediately given to us for our use and enjoyment; that is to the extent that they resist our desire" <sup>[5]</sup>.

Needs are anticipated, controlled, denied, postponed, prioritized, planned for, addressed, satisfied, fulfilled, and assessed logical instrumental processes. On the other hand, desires are omnipotent; they represent something we give in to; they can dominate our thoughts taking control of our feelings and actions. There's a battlecamp inside us, we tend to resist, and to struggle with, or in some cases we succumb, surrender, and indulge our desires. Desire, most often, consumes passionate consumers. Needs and desires can not simply be differentiated by their intensity or emotionality, the difference resides in their basic perceived nature. Need has internal roots; desire is born externally. Needs push, desires pull. A rational explanation of behavior is offered for our needs (I bought it because I need it); desires do not<sup>[6]</sup>. In our culture of plenty, in which advertising, packaging, display, media representations and

conversations fuel our possession fantasies, desire should rather be a matter of *whether* we really desired something or we were actually "pushed to" it. Desire is thus very much a social and personal construction. Desire structures us, as much as we structure it- we are what we desire. In 1956, Sartre stated that feeling an absence of being, we come to desire states of having and doing that we believe will construct and manifest our being.

Desire, refers to a strong longing, to something that is strongly wanted or, as a verb, to the process of wanting something strongly. In descriptions of consumer behavior, similar phenomena are often presented as needs or "mere wants," and subsumed under psychological motivation models, such as the motivational hierarchy of Maslow (1954). In the investigation of consumer desires, consumer can take a further step in this respect of finding a connection between feelings and personal experiences of the most passionate kind and the realm of consumption.

## 3. From (A Streetcar Named) Desire to Compulsive Buying

"Everything good is either forbidden or fattening"-this saying reveals the fundamental link between desire, on the one hand, and sex(ual transgression) and eating, on the other. These point to the strong passions—"desires"—and represent an attempt to compare feelings of consumer desire to yearning for other delicious and arousing objects. Besides sex and eating, the other domains of passionate discourse commonly invoked by consumers in discussing their desires are addictive craving for drugs and transcendent religious passion <sup>[7]</sup>.

Basic needs evolve or turn into desire of different forms or degrees, these in turn coupled with consumption give raise to abnormal consumption behavior- such as compulsive buying. Compulsive buying has been termed as an addiction, an obsessive compulsive disorder, an impulse control disorder, an affective-spectrum disorder, or an extreme form of normal buying. Compulsive buying has commonly been characterized as involving an irresistible urge to buy or shop which leads to spending far more time than intended and/or purchasing more than can be afforded or needed <sup>[8]</sup>. This behavior leads to a

temporary reduction in tension for compulsive buyers, but ultimately results in social and/or financial problems<sup>[9]</sup>. There is a certain predisposition for developing these in people suffering from several different disorders- compulsive buying is significantly more common among women suffering from binge eating disorder than for a similar weight non-bingeing group and compulsive buyers have also been reported to have higher than average levels of alcoholism, drug addiction, pathological gambling, and kleptomania.

The buying motivation of normal consumers and those with a compulsive buying disorder generally differ. A first motivational category is represented by personal identity- some compulsive buyers shop only in exclusive stores in order to reinforce their feelings of importance. Specific items may be purchased in order to enhance one's self-perception. For example, items such as clothes, jewelry, or cosmetics are closely linked with appearance and self-image. Others may spend on items like auto parts or electronic goods in order to support their feelings of competence or expertise in these areas. For some compulsive buyers, purchasing specific types of goods may represent a way of "buying an identity"<sup>[10]</sup>. For some people, the act of shopping or buying, rather than the item or location, may be a key element of their identity. Buying or shopping becomes a key component of one's identity, just like collecting stamps, playing tennis or any other similar type of activity.

Other buyers may buy in order to enhance interpersonal relationships. Purchasing certain items may attract other people or earn compliments from others, or gain interpersonal contacts, just as the ability to find good deals may gain praise and respect from others. People who engage in compulsive buying to achieve personal identity are able to view themselves differently while buying than they normally do.

Alternatively, other possible motivations, common to normal and compulsive buyers include diversion (a frequent excuse for going shopping). It is seen as relaxing, something to do when bored, or as a way to temporarily escape from one's problems. Those who seek diversion can temporarily overcome boredom, change their mood state or their arousal level, or escape from their problems. Thus,

compulsive buying serves a functional purpose by achieving the goal that motivated the behavior. Shopping to combat boredom has also been found among compulsive buyers. Compulsive buying seems to serve as a way of improving negative mood states.

#### 4. Conclusion:

Compulsive buying serves a functional purpose and it is the success of meeting these needs that makes the behavior problematic and repetitive. Unintended consequences frequently occur as general effects of repeatedly engaging in compulsive buying. These negative effects include mounting debt and financial problems, bankruptcy, interpersonal conflicts with family members, divorce, passing on this behavioral problem to children, as well as other legal, emotional, and even physical problems<sup>[11]</sup>.

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# The Standardization of Risk Management Practices at the International Level

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## Abstract

*The last decades have seen an increase in concerns regarding risk management (RM), leading to a number of internationally recognized and applied standards. The aim of this paper is to provide a critical overview of the most widely used risk management standards and frameworks promoted at the international level, focusing on their different approaches and potential implications. Although the RM principles enforced by various standards are supporting better RM strategies, we argue that RM in an organization should be developed beyond a rules-based approach and by taking into account the organization's specificities and objectives, making RM a key component of an organization's culture.*

**Key words:** risk management, standards, ISO, business strategy

**J.E.L.classification:** D80, G32, L21

## 1. Introduction

A quick online search for “risk management” results in more than 76 million references [the search was performed on [www.google.com](http://www.google.com) on May 16, 2015], while a search for academic papers results in more than 809,000 contributions written between 1980 and 2014 [the search was performed on [www.scholar.google.com](http://www.scholar.google.com) on May 16, 2015; the number of papers increased from 579 in 1980 to 80,800 in 2014, but there were 247,000 works published on this topic between 2008 and 2012, most likely as a “side-effect” of the financial crisis that emerged in 2007]. This is no accident, as RM

became a popular topic in the recent years, the debate surrounding it being fuelled by an increasing number of corporate mistakes, failures, bankruptcies, which culminated once the global financial crisis erupted in 2007 in the United States and spread afterwards in Europe in 2008. Despite the vivid discussions that are present in the literature and are incorporated into a high number of standards, frameworks, regulations, codes of conduct etc., RM is in many instances treated more like an issue referring to control and compliance, which can be addressed by drawing up rules, and less like a “way of thinking” that can change the manner businesses are run.

The world we live in presented us in recent years with an ever growing number of risks, on one hand, and with an enhanced sophistication of these risks, on the other hand. The Global Risks 2012 Report published by the World Economic Forum outlines five top risks in terms of likelihood - severe income disparities countries, chronic fiscal imbalances, rising greenhouse gas emissions, cyber attacks and water supply crises, while the five top risks in terms of business impact are a major systemic financial failure, water supply crises, food shortage crises, chronic fiscal imbalances and extreme volatility in energy and agriculture prices [1]. It does not require a RM expert to observe that many of these risks fall beyond managers' control and ability to forecast them, which raises the question of RM systems (if any!) effectiveness in a global framework where volatility and risk are no more the exception, but the rule.

We provide in this paper a critical overview of the most widely used RM standards and frameworks promoted at the

international level, focusing on their different approaches and potential implications. Given the features of the current macroeconomic framework, we argue that risk management in an organization should be developed beyond a rules-based approach, typically enforced by RM standards, and by taking into account the organization’s specificities and strategy. When RM becomes a key component of an organization’s culture, its benefits are widespread and sustainable.

## **2. Risk management standards – an overview**

A good understanding of RM standards, and of any other standard, in the end, stems from a proper understanding of what a standard is and is not. From that perspective, there is a lot of confusion between standards, regulations, frameworks, principles etc., which might lead to an improper use of such documents. First of all, there is a difference between standards and regulations from their mandatory features perspective: i.e. while standards are typically voluntary, regulations are mandated by legislation. Of course, when standards are adopted by a government or by an official body they might become mandatory; the same is true when they become part of a business contract. Second, one should not confound a RM standard with a RM framework; typically, the standard is wider in scope, as it “sets out the overall approach to the successful management of risk, including a description of the risk management process, together with the suggested framework that supports that process” [2]. Another important distinction refers to standards and controls: while controls do not evolve in scope or speed to keep up with new emerging risks that the organization is exposed to, standards are developed collaboratively over time through experience and are usually based on collections of best practices and guidelines, and are able to be adapted to new circumstances and risks.

A number of RM standards and frameworks have been developed in the last decades, with rather similar approaches. The first standard ever proposed was issued in Australia in 1995 and was followed by standards developed in Canada, United Kingdom, Japan and the United States. Besides standards put forward by international bodies, national standards bodies and various government departments around the world have developed RM standards, with a narrower scope, but built around the same principles. While some of these standards were developed by RM professionals, others were developed by accountants or auditors. Some of these standards are considered *primary* or *recognized* as they are formal documents that establish criteria, methods, processes and practices under the jurisdiction of a standards body (national, regional or global). Other standards are *guidance-oriented*, as they are developed outside of an established standards body; sometimes, when this type of document becomes generally accepted it is called a “de facto standard”. It is important to understand that while primary standards are used for regulatory compliance and public certification or validation, guidance documents tend to be used for internal operational or process implementation assistance.

Three main approaches to RM are proposed in existing standards: (1) a “risk management” approach, which focuses on organizational objectives; (2) an “internal control” approach, which is oriented towards compliance and control objective; and (3) a “risk-aware culture”, less encountered, which aims at integrating RM into an organization’s culture and strategy. Historically, the standard that enjoyed the widest recognition was the Australian Standard AS 4360 (2004), which was replaced in 2009 by ISO 31000: 2009 “Risk Management – Principles and guidelines”. Table 1 systematizes the most well known RM standards, outlining their main attributes and their intended focus.

*Table 1. Risk Management standards*

<b>Standard (year)</b>	<b>Issuing body</b>	<b>Brief description</b>	<b>Focus</b>
CoCo - Criteria of Control (1995)	Canadian Institute of Chartered Accountants	Based on the idea that the risk culture of an organization should receive the most important consideration. The criteria that are used in order to evaluate the risk-aware culture within an organization using the CoCo approach are (i) the organization’s purpose, vision and mission; (ii) the commitment to integrity and ethical values; (iii) the capabilities, authority and responsibilities; (iv) the learning process and the development of competences within the organization.	Risk culture
A Risk Management Standard (2002)	Federation of European Risk Management Associations	Describes the necessary components of an ERM framework, as best practices against which organizations can measure themselves. It does not discuss root cause as a key component to effective RM.	Risk management
IRM (2004)	AIRMIC, ALARM and Institute for Risk Management	High-level approach, one of the best-established and widely used standards, aimed at non risk-management specialists.	Risk management
COSO ERM (2004)	Committee of Sponsoring Organizations of the Treadway Committee	Replaces the COSO Internal Control Framework (1992) and has both RM and internal control within scope. The Sarbanes-Oxley Act of 2002 requires the approach proposed in the COSO Internal Control Framework (1992). Designed for use primarily by risk management practitioners. Places a greater degree of responsibility on the board, requiring it to have direct involvement in the ERM process.	Internal control
Orange Book (2004)	HM Treasury of the UK Government	Introduces the concept of RM and provides a basic description to its concepts, development and implementation of RM processes in government organisations. It should be read and used in conjunction with the other publications on Governance & Risk Management of the HM Treasury.	Risk management
Turnbull Report (2005)	Financial Reporting Council	Is considered by the Securities and Exchange Commission (SEC) in the United States as an acceptable alternative for the COSO Framework in order to comply with Sarbanes-Oxley requirements.	Internal control
BS 31100 (2008)	British Standards Institution	Highlights the benefits of using a risk maturity model to improve an organization’s RM model. It directs users to the complementary BS 25999 Business Continuity Management Standard, which is specifically tailored to business resiliency and sustainability.	Risk management
ISO 31000 (2009)	International Standards Organization	Shift from an event to the overall effect that risks and RM have on an organization’s objectives. Emphasizes RM as a strategic discipline for making risk-adjusted decisions. Still, the standard does not clearly offer a portfolio view on risks.	Risk management
OCEG “Red Book” 2.1 (2011) – GRC Capability Model	Open Compliance & Ethics Group	Integrates formally governance, risk and compliance processes, supported by a common technology platform (ideally). Risk is given a limited role focused on identification and measurement. Does not consider risk ownership by business areas.	Compliance and Internal control

Source: Authors’ collation

Of these standards, three deserve more attention, in our view, given either their widespread adoption or their specific focus: the COSO Enterprise Risk Management (ERM) framework, the ISO 31000 standard and the CoCo standard. We briefly discuss the contributions of these standards to the RM profession. The COSO ERM approach

advocates ERM as a multidirectional and iterative process, in which almost any component can and does influence all other components of the process. In this framework, organization’s objectives are directly related to ERM components, which represent what is needed in order to achieve the organization’s objectives. The well-



known representation of the influential RM framework advanced by the COSO ERM approach is the “Cube Diagram” [3], depicted in Figure 1. The “Cube” proposes eight inter-related components of an organization’s RM framework, derived from the manner management runs the organization, as follows: internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication and monitoring. The ERM framework is addressed to the achievement of corporate objectives, divided into four risk categories: strategic, operational, reporting and compliance. Also, the “Cube” sets the corporate level which receives the attention of RM – entity level, division, business unit, subsidiary – thus allowing an effective “slicing” of RM processes and objectives within the organization, with the associated responsibilities.

Figure 1. COSO ERM's "Cube Diagram"



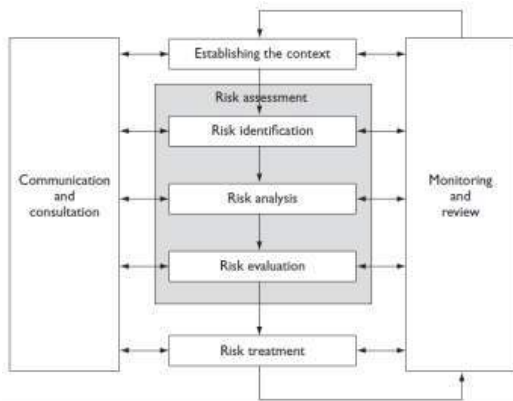
Source: Committee of Sponsoring Organizations of the Treadway Committee – Enterprise Risk Management – Integrated Framework (2004)

In the latter part of 2009 the International Standards Organization (ISO) published ISO 31000 – “Risk management – Principles and guidelines”, a document that contains elements of the RM framework and the key phases of the RM process (see Figure 2). The standard is structured into principles (11 attributes of RM), a framework with five components (mandate, plan, implementation, checks and improvement), and process (communication and consultation, context, risk assessment, treatment and monitoring) [4]. The standard focuses on the actions taken with regard to identified risks in order to improve the cost-effectively improve the organization’s performance. Based on

defining risk as “the effect of uncertainty on objectives”, one of the key components of the standard is the idea of “deviation”, as the standard leads organizations towards measurement of deviations from expected outcomes. The ISO 31000 is a universal standard that can be customized to the specific needs of an organization and may be most helpful for changing organizations and for organizations seeking more flexibility in their strategic and operational RM practices.

The last standard we discuss, the CoCo standard (1995) is not the most recent of them, but it is the most interesting in terms of proposed approach to RM. This approach, adopted by the Canadian Criteria of Control and issued by the Canadian Institute of Chartered Accountants, is based on the idea that building a risk culture in an organization is of paramount importance for a successful RM process [5]. The standard builds on the concepts in the COSO framework and defines control as comprising “those elements of a company (including its resources, systems, processes, culture, structure and tasks) that, taken together, support people in the achievement of the organisation’s objectives”. The CoCo report also states that “control is effective to the extent that the remaining (uncontrolled) risks of the organisation failing to meet its objectives are deemed acceptable”. The standard sees control as encompassing the entire organization starting with its smallest unit and uses four essential elements as groupings within which it articulates 20 criteria of control: (1) purpose criteria; (2) commitment criteria; (3) capability criteria; and (4) monitoring and learning criteria. These criteria are interrelated and together they provide the framework for looking at the whole organization from a control perspective.

Figure 2. Risk management process as outlined by ISO 31000



Source: International Standards Organisation – ISO 31000:2009 Risk Management – Principles and guidelines (2009)

### 3. Beyond the standards – effective risk management strategies

The new global landscape that emerged after the recent financial and economic crisis is characterised by a “risk architecture” that embodies higher variance in losses and gains than before and increasing interconnections between risks. In this framework, although favourable for positive returns, contagion risks are higher than ever and management teams are forced, if determined to survive and grow, to challenge themselves towards developing more robust scenarios based on this new and in many instances less understood reality. Moreover, organizations need to prepare for non-preventable risks that arise externally to their strategy and operations and that have the potential of putting the organization out of business.

It is well acknowledged now, as evidenced by many academic studies, that people tend to be overconfident about the accuracy of their forecasts and assessment of risks and anchor their estimates to evidence that is readily available, despite the perils of extrapolating history into the future. In addition, we all suffer from confirmation bias, which means that we are collecting information that supports our beliefs and discard information that contradicts them. At the organization level, groupthink also introduces biases regarding risk assessment – this refers to the fact that once a course of

action has gathered support within a group, those that are not supportive tend to suppress their objections and fall in line. The result of these individual and organizational biases may be an overlooking or misreading of ambiguous threats to the organization, which leads to an ineffective RM, as organizations tolerate apparently minor breakdowns and do not treat early warning signals as alerts to about to happen dangers.

Stemming from these biases, Kaplan and Mikes (2012) propose a new framework for an effective RM system, based on three categories of risk that companies face, each requiring a different RM approach [6]. Table 2 briefly presents these risks alongside with the appropriate control model and role of RM staff function. When organizations understand that preventable risks can be more easily monitored and controlled through the use of rules-based standards and controls, but strategy and external risks require the application of RM processes that encourage managers to openly discuss risks and identify cost-effective ways to reduce the likelihood of risk events or to mitigate their consequences, the RM system is truly adjusted to the organization’s particularities and objectives.

### 4. Conclusions

Recognized RM standards offer a number of benefits to organizations that adopt them, but it is important to understand that there is no single standard that covers an entire field and that organizations are expected to use whichever components of such standards in order to meet their objectives. At the same time, an effective RM systems should be based on a systematic thinking about the various and interconnected categories of risk companies face in such a way as to institute the appropriate processes for each. Standards’ adoption, which institute rules and compliance actions that mitigate some risks, cannot effectively support organization’s RM without taking into account the organization’s strategy, objectives and risk culture.

Table 2. Tailored RM strategies to risk categories

	<b>Preventable risks</b>	<b>Strategy risk</b>	<b>External risks</b>
<b>Risk description</b>	Risks arising from within the company that generate no strategic benefits	Risks taken for superior strategic returns	External, uncontrollable risks
<b>RM objective</b>	To avoid or eliminate occurrence cost-effectively	To reduce likelihood and impact cost-effectively	To reduce impact cost-effectively should risk event occur
<b>Control model</b>	Integrated culture-and-compliance model	Interactive discussions about risks to strategic objectives Resource allocation to mitigate critical risk events	“Envisioning” risks through tail-risk assessment and stress testing, scenario planning and war-gaming
<b>Role of RM staff function</b>	Coordinates, oversees and revises specific risk controls with internal audit function	Runs risk workshops and risk review meetings. Helps develop portfolio of risk initiatives and their funding. Acts as devil’s advocates.	Runs stress-testing scenario-planning and war-gaming exercises with management team. Acts as devil’s advocates.

Source: Kaplan and Mikes (2012)

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# Multinational Companies – Main Players In The Globalization Economy

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## Abstract

*Regardless of the pro and against globalization opinions, the reality demonstrates the fact that the new world economy is based on the globalization process.*

*In the international economic arena, apart from sovereign states there are new important players coming into action, such as multinational companies. We must also not neglect international institutions which have left their mark on the international arena.*

*In the current context, multinational companies, hold a force unthought of half a century ago and represent both the main entities generating value and the main beneficiaries of the redistribution of added value, mainly through speculative actions.*

*In the current paper I have attempted to present the different spectrum of roles which multinational companies play in the process of globalization.*

**Keywords:** globalization, multinational companies, transnational index,

**JEL Classification:** F23, F60

## 1. Introduction

The fall of the communist system at the beginning of the 90s, the liberalization of the global economy due to the decrease of custom taxes through the GATT/OMS negotiations and the deregulation of the economic system have created the basis of globalization.

An open field game with a large number of barriers and reduced rules is in the advantage of the development of multinational companies which had both the necessary capital and technology.

The liberalization of the economic activity determined on one side the fact that

multinational companies would enter in a strong competition arena and on the other side it has set the conditions through which global economic agents, mainly banks, could speculate certain weaknesses of the system and basically infect the global economy, thus generating crises which have become global.

In the current context, the multinational firm plays an important role in the international division of work and has the main objective of profit maximization.

## 2.Theoretical approaches to globalization

The globalization is a phenomena which has become mundane, influencing the institutional organization of states, the economy of different countries and last but not least the personal life of the globe's citizens.

Based on what we have observed in the last years we can state that apart from the numerous problems it has raised, the globalization represents an opportunity for the economic development of countries and implicitly for the growth of the life standards of the population.

Thomas Friedman and Martin Wolf can be considered as the most representative researchers which emphasize the benefic impact which the globalization plays in human kind's progress. Friedman develops a mainly positive view on globalization, identifying it as a force for good while Wolf, apart from emphasizing its positive features, also states a series of answers to its critics. In the center of his thought, Wolf cultivates the necessity of developing the market economy on a global scale, considering that globalization represents the best solution for expanding wealth in the world and consolidating world peace.

The globalization fundamented on market liberalization determines, in the conception of Naomi Klein, an exponential increase in the influence of multinational companies on

the ability of citizens to freely choose the products they consume. The huge amounts allocated by multinational companies to their marketing departments have a significant impact on the consumer's choice of goods which meet their own needs. The fact that larger sums are allocated for marketing than for research by pharma companies, is a clear example, of an area where people's health should take priority and not the consumption volume.

The conclusion reached by Klein is that major corporations fail to ensure a balanced distribution across geographies of jobs and in the pursuit of maximizing profits, these companies lead to poverty in less developed countries. Interesting is the parallel drawn between the development of wild capitalism which was based on freedom and the current corporate capitalism which was based on the deregulation of the global economy in general, thus on market liberalization. The global economy amid the market fundamentalism hasn't taken into consideration the induction of shocks in times of economic stagnation or crisis. This theory of the introduction of inductions in the economy was tested and supported by Friedman and the Chicago school, but was not approved by Klein who is weary about the possibility of its implementation under the present circumstances, considering that it leads to destruction. [1]

A number of radical thinkers, headed by Subcomandante Marcos - the representative of the zapatist movement believes that globalization can be identified with the fourth world war, but does not offer a coherent and credible alternative to the current global economy based on capitalist mode of production.

As support by Grzegorz W Kolodko the paradox of globalization is that it is difficult to coexist simultaneously at similar levels, three issues: globalization, democracy and the state - nation. Given that democracy is affected to some extent by the manipulation induced by the strong through current communication techniques, and secondly that the power of the states have shrank substantially in terms of regional integration we can say that parallel with the increasing globalization democracy is partly affected and the duties are reduced of the nation - state. [2]

### **3. Motives determining company internalization**

From a historical perspective it can be affirmed that four factors can be found at the basis of the internationalization of the activity of companies and these are: searching for new resources, entering new markets, increasing economic efficiency and acquiring new strategic assets from certain areas of the globe. [3]

From a chronological perspective investments made by certain companies abroad in order to **acquire natural resources** were the first initiatives which regarded the internalization of their activity.

100 to 150 years ago the production activities would be performed mainly in the big metropolis in the context in which the natural resources were held by colonies. It was normal under these conditions that an important feature of companies undertaking production activities to be the acquisition of raw materials from abroad.

The demographic evolution of the last twenty years as well as the favorable legislative measures of foreign investors adopted by the majority of states have determined the multinational companies to shift the production activities in different areas of the world depending both on the closeness of the production sites to raw materials and the existence of a cheap and acceptably qualified workforce.

The considerable reduction of the barriers which have limited the free circulation of goods and capitals has stimulated the decision of multinational companies to **expand to new markets**. Initially this was limited to developed countries whose citizens had a considerable purchasing power. Gradually the attention of multinational companies shifted also to the developing countries. We must not forget that approximately 80% of the world's population is living in developing countries. In countries such as India, China, Nigeria a large part of the revenues of important consumer goods multinational companies was generated in the last few years by the rural area. For example, Colgate-Palmolive has created operational teams in India which travel to rural areas in India and project movies which present the positive health effects generated by washing the teeth. The

result of these actions was seen in the substantial revenue growth of Colgate-Pamolive in India.

There are developed countries such as Switzerland, Sweden, etc, whose internal markets are relatively limited. If companies such as Nestle, Ikea, etc., would have focused mainly on the internal markets they would not have the power and global dimension that they have today.

In the same time we need to take into consideration that multinational companies hold the necessary resources in order to increase demand and therefore grow the market. The marketing department has gained a special significance. The publicity expenses involved in different markets generate new wishes, therefore they generate new sales opportunities for the companies' products. The fact that each year there are created new ads for external markets means that they are generating profit. It is not by accident that many multinational companies have higher marketing budgets than R&D budgets. Many times given the progress made in company communication new needs have been generated at a global level, even though in certain areas the respective services or products were not necessarily necessary for the population. Although social and economic life is globalized under many aspects, it is necessary to differentiate between the different commercial policies of multinational companies depending on the geographic area in question.

The decision to enter a new market takes into account the existing competition level on that particular market. It is evident that the existence of many important competitors makes a market less attractive for a foreign investor. The world economy is currently an open field for competition, therefore multinational companies either become more competitive, succeeding in the global economy, or become bankrupt, therefore exiting the market.

The political factors may determine the attractiveness of a market. The political and legislative stability as well as perceived corruption in many cases create a surcharge which needs to be paid, the facilities awarded in some cases by the host countries represent certain factors which can be taken into account by multinational companies when

shifting their production activities in new markets.

The criteria which take into account **the increase in economic efficiency** represent an important factor in the starting or continuation of the company's internationalization process.

The main objective of corporate managers is neither the improvement of the living standard in the area where the activity is undertaken nor the ethical aspects of the activity, but the profit maximization.

The increase in the number of consumers leads to the increase in the number of products produced and sold. This fact determines the reduction of the fixed and unit production costs of the company. The increase in the level of profit per unit doubled by the increase of the number of units sold determine the increase of the economic efficiency of multinational companies.

The reduction of costs linked with logistics, cooperation generated by the relocation of the production activity to a new country as well as the closing of units with a low profitability level represent elements which lead to the maximization of profit of multinational companies.

The attempt to **acquire strategic assets** is mainly determined by the wish of multinational companies to acquire advanced technologies in a certain sector or their wish to position themselves on a certain market, such as the energy market.

Some investors such as the Asian investors around the 2000s have acquired or started companies in certain former socialist European countries, with the intent that after joining the European Union they would become players in extended markets.

According to UNCTAD statistics, in 2009 the number of multinational companies was of over 80000, with each of them having approximately 10 subsidiaries abroad. We can therefore speak of a global network represented by the mother company and the foreign subsidiaries.

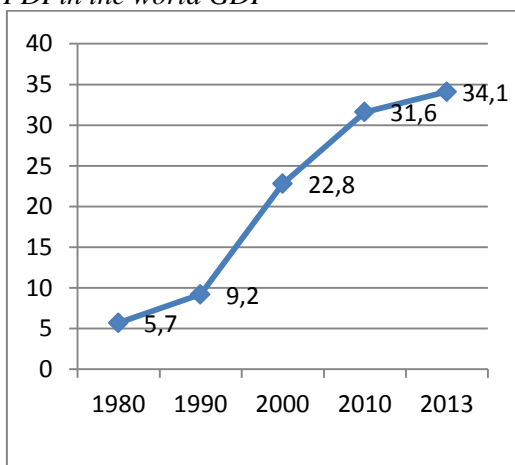
Before the start of the crisis, in 2008 the subsidiaries owned by multinational companies assured approximately 1/3 of the world exports. [4]

Moreover, a large amount of the global trade is undertaken inside the company group which are connected via property. For example a group formed by a mother

company and its subsidiaries. The intra-group exports have varied weights, most of the times being quite high related to the exports of goods manufactured in different countries. For example, in Japan this weight is 10%, whereas in Sweden it has reached 51%. [5]

Greenfield and M&A foreign investments represent the main mechanisms which multinational companies have used in their expansion in external markets.

Figure no.1, The evolution of the attracted FDI in the world GDP



Source: www.unctad.org

In the vast majority of cases the foreign direct investment flows are generated by multinational companies. The intensification of the role which multinational companies play in the economy of the different host countries is given by the evolution of the attracted FDI flow in the world GDP. At the beginning of the globalization accentuation process, respectively the year 1980, this weight was of 34.1%, fact which shows the strengthening of the dependency of the economies of the host countries on the foreign capital invested by multinational companies.

In the last few decades multinational companies have obtained a significant economic power overcoming even many developing countries, thus the fear arises that some host countries which are less developed are promoting their interests at the expense of the local population. [6]

This trend also results from the ranking which is presented in this paper where the main criteria is the economic power of countries through the GDP and by multinational companies through their

revenues. In this ranking we have taken into account based on the information for 2013 the first 100 places which are composed by 63 countries and 37 multinational companies, Romania being found on the 54th position. The revenues of Wal-Mart Stores (469.1 billion dollars) have determined its placing on the 17th position in the mixed ranking being followed by 180 countries. Moreover, Wal-Mart Stores' revenues are higher than the GDPs of Austria (415.4 billion dollars) or Denmark (330.2 billion dollars).

Based on realized revenues Wal-Mart Stores have kept their leadership position in the 2014 as well. The first 5 positions based on Fortune data are held by: Wal-Mart Stores (revenues 476,2 billion dollars; profit 16,0 billion dollars), Exxon Mobil (revenues 407,6 billion dollars; profit 32,5 billion dollars), Chevron (revenues 220,3 billion dollars; profit 21,4 billion dollars), Berkshire Hathaway (revenues 182,1 billion dollars; profit 19,4 billion dollars), Apple (revenues 170,9 billion dollars; profit 37,0 billion dollars). [7] We can observe that all five companies have their headquarters in the United States, fact which demonstrates the special economic power acquired by American companies mainly due to their very large internal market.

Table no 1. Top 10 multinational companies based on the transnational index

	Company	Country	TNI
1	Nestlé SA	Switzerland	97,1%
2	Anglo American plc	United Kingdom	95,9%
3	Anheuser-Busch InBev NV	Belgium	93,3%
4	British American Tobacco PLC	United Kingdom	91,0%
5	Linde AGLinde AG	Germany	91,0%
6	Barrick Gold Corporation	Canada	89,2%
7	SABMiller PLC	United Kingdom	89,1%
8	ArcelorMittal	Luxembourg	89,0%
9	Vodafone Group Plc	United Kingdom	88,9%
10	WPP PLC	United Kingdom	87,8%

Source: The world's top 100 non-financial TNCs, ranked by foreign assets, 2013 a

The internationalization of the company, respectively its globalization level is measured with the help of the transnational index calculated based on the weight of assets held abroad in total company assets, the weight of revenues obtained at the foreign subsidiaries in total revenues and the weight of employees from the foreign subsidiaries in the total number of employees.[8]

From the table no. 1 we can conclude that Nestle is the world's most global company. Moreover we observe that from the first 10 companies none is American, all being European.

The global force of multinational companies results also from their high level of competitiveness. The majority of R&D expenses at a global level are done by US, EU and Japan multinational companies.

The highest volume of R&D expenses recorded in 2013 was Volkswagen (9.5 billion dollars) followed by Samsung and Microsoft.

The internationalization of the activity of multinational companies assumes the use of a global management system and the existence of a global business infrastructure, the later being able to considerably diminish cultural differences in the world's different areas.

#### 4. Conclusions

Undoubtedly, we can state that a significant part of the world economic growth recorded in the past 30 years is due to multinational companies. The technology transfer, large scale production and low prices have made products accessible to a large number of citizens, the created jobs and higher salaries in comparison to local companies are just a few examples of the ways through which multinational companies have determined the economic development and improvement in the life standard in many host countries which are lagging behind economically.

In other words, multinational companies are often associated with the exploitation of natural resources, the pollution of the environment of poor countries, the financing of political local campaigns in order to take advantage of friendly legislation, of the obstructing of the independency and sovereignty of the countries in which they undertake their activity.

Taking into account the fact that multinational companies are becoming more and more important as global agents an improvement of their image among the population is imposed, image which has deteriorated in the last few years. In order to improve this image a few actions can be undertaken: improving the ethic behavior, conducting CSR activities, imposing global regulation referring to the threat of monopolies and non-competitive behavior, punishing by law the bribe offered abroad, the improvement of the WTO activity referring to the abusive application of protectionism.

Regarded by some as a progress factor and by other as non-colonial exploitation instruments in the contemporary period, multinational companies are welcomed and attracted by the majority of the world's countries. We could even go as far as saying that multinational companies represent the necessary evil which characterizes the economy of the last 30 years.

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## Comparative Analysis between the Exception of a Non-performance of the Contract and the Lien – Similarities

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### Abstract

*For achieving a better understanding of the exception of a non-performed contract, it is imperative that we trace the similarities and differences defining both the political status of the analysed exception and the lien. To that effect, one must mention that both legal institutions stand as a form of insured collaterals for the creditor, and are designed to exert a pressure on the debtor in order to coerce him to fulfil its obligations without delay.*

**Keywords:** contract, exception of a non-performed contract, civil obligations, lien, insured collaterals.

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

### 1. Introduction

The exception of a non-performance contract has been crystallized in jurisprudence as a separate and complex legal institution, with multiple practical implications and meanings, in such a way, that it leads one to believe that the delineation between it and other adjacent institutions (rescission and termination of the contract, lien, potestative rights, assignment of claim and the offset of the connected debt) is liable to emphasize the conclusion of its autonomy and specificity.

### 2. Similarities between the exception of a non-performance contract and the lien

Authors in this field, define lien as that subjective civil law which grants the lien holder – guarantee of the debt that arises over a property – the right to hold and refuse restitution of another's property as security,

until the the unpaid debt, related to that property, is satisfied.[1]

According to Romanian Law prior to the new Civil Code, the judicial institution of lien was not regulated, except for a number of special applications within various fields of the Civil Law, being, however, acknowledged by the judiciary practice, as well as by the institution, to the point in which, it became the subject of extensive debates in the literature of the field; generating numerous controversies. According to the current Civil Code, lien receives a regulation *expressis verbis* according to the provisions of article 2495-2499 of the New Civil Code[2], as well as in various cases in which lien applies in different fields of the civil law, such as:

- Art. 566 Para.6 of the New Civil Code legislates a lien upon the products of the frugiferous asset, until the reimbursement of the necessary expenses paid for their production and acquisition;

- Art.937 Para.3 of the New Civil Code states that the *bona-fides* owner of a lost or stolen property, which was bought “from a place or from a person who sells merchandise of the same kind, or if the asset in question was won at a public auction,” has the same right to lien as the real owner of the asset, until the later has paid the price that the former had paid at the transaction;

- Art.1154 Para.3 of the New Civil Code regulates that the lien of the grantee, who is bound to account for the ensuring of the reasonable refund, which had been made through the added, as well as, autonomous work, be necessary and useful until the date of the report;

- Art.2029 of the New Civil Code acknowledges the lien of the agent upon the assets received from, or for, the principal, in order to ensure claims: in reimbursing the

reasonable expenses requested by the agent to be executed by the principal; in repaying the debt owed to the principal, as well as, in payment of the fee of the representative, when the principal acquires it by onerous title.[3]

Compared to the main features of the lien, existing in the literature of the field, the great majority of the authors has found that this is a true and imperfect right of warranty, because none of the attributes of a true right (the right to preference and the right of pursuit) characterizes lien.[4]

In support of this idea, a number of authors claimed that lien is nothing more than a simple exception, means of defence and of insurance. In this respect, the claim made upon the asset through the lien by the holder is weak and conservative, and the sole right that the lien holder can exercise is that of refusing to hand over the asset, until the receivable is discharged.[5]

Other authors have shown that the lien is a right in itself solely from an etymological perspective – *jus in re* and with a *de facto* condition of ownership, which the holder must meet regarding the asset, due to the fact that, only thus, may the lien arise and endure. Lacking *jus distrahendi*, the creditor shall have, as aid for his claim, a personal action, seeing that the owner-debtor is bound at a personal level, and not through *propter rem*. [6]

In this regard, it was agreed upon that the right of lien had the same final purpose in all the cases, albeit it is built on a different basis, respectively:

- A lien based upon a convention, case in which one can make the distinction between two subgroups: a) those resulting from synallagmatic contracts, lien can be interpreted as a version of the exception of a non-performed contract; legally and explicitly defining it, being optional; and b), when it is grafted onto a legally binding contract, the lien is the manifestation of a genuine privilege, lawfully established as such;

- A lien which is not based upon a convention (art.598, art. 1154 The New Civil Code) when it produces the *de jure* effects of a *de facto* privilege.[7]

This analysis shows the interferences between lien and the exception of a non-performed contract. Therefore, both the

exception of a non-performed contract, as well as the lien, function as a form of warranty for the lender. However, as it was previously mentioned, the lien is inalienable and indivisible, while the exception of a non-performed contract is non-binding, originating in a synallagmatic contract, and it can be overruled by partially enforcing the correlative obligation of the other contracting party.

At the same time, both mechanisms are intended to exert pressure on the debtor to perform its obligations. There are certainly situations where the refusal to surrender an asset to the counterparty may be justified either by invoking the right of retention or the exception of a non-performed contract. Such an overlap between the two institutions is explained by the inclusion, within the lien, of the claims linked economically and legally to the asset.

The legal (intellectual) connection between the two originates in the community. Here, the two obligations spring from the same which have the same ratio spring from the same synallagmatic contract. Being related, because they originate in the same legal relationship, the mutual obligations are interdependent; in the sense that, if one of them is not carried forward, the other party may legitimately refuse the creation of their own debt. In case the required delivery of an asset is met with a refusal of enforcement, then it takes the form of retention.

The financial bond (objective) signals the existence of a direct link, materials between debt and asset (*debitum cum re junctum*). Acknowledging lien is understandable, seeing that the right of claim arises in conjuncture with the object itself (for its the conservation, improvement, transformation or as the consequences of the prejudice caused by the asset); for as long as the right of the lien holder emerged in close connection to the asset, it is normal that it be the subject of the execution of the respective claim.[8]

A number of authors claimed that, according to the Legal Binding Hypothesis, the lien is nothing more than a particular manifestation of the exception of a non-performed contract. In view of their similarities regarding their function, the identity of their basis, the common field in which they apply but, most of all, the fact

that they represent the same guarantee mechanism.[9]

In this regard, a list has been compiled of the instances where the lien is nothing more than a simple application of the exception *non adimpleti contractus*, in the legal ties resulting from synallagmatic contracts[10]:

- The vendor who has not received the value of the price, is allowed to refuse to surrender the purchased item, under Art.1322 and 1323 Civil Code 1865 (Art.1694 New Civil Code), under the principle „*venditor, quasi pignus, retinere potest sem quam vendidit*”;

- The buyer with a pact of repurchase, as well as the buyer whose title was cancelled by effect of a rescissional action, are allowed to retain the purchased item until they have been fully reimbursed for the purchase under Art.1377 Civil Code 1865 (Art.1758 New Civil Code);

- The owner of a building, which has been expropriated for the public interest, has the right to retain the property until he has been reimbursed under Art. 481 Civil Code 1865 (Art.562 New Civil Code);

- The depositary, which has run expenses for the conservation and maintenance of the stored object, has the right to retain the said object until payment for expenses or damage caused due to storage has been paid, under Art. 1618 and 1619 Civil Code 1865 (Art.2122 and Art.2123 New Civil Code);

- The heir subject to the lien is entitled not to surrender the property to the chart of heirs, until he/she is reimbursed the expenses he has paid for it Art. 771 Civil Code 1865 (Art.1154 New Civil Code);

- The owner of a lost or stolen movable asset, who bought it at the fair, has the right to refuse to surrender it to the rightful owner who claims it, provided the later refunds the price the former had paid under Art.1910 Civil Code 1865 (Art.937 New Civil Code);

- The right of the hotel manager and of the porter to retain the belongings of the traveller until the accommodation and the according transport have been paid Art.1730 Civil Code 1865 (Art.2135 New Civil Code).

In addition, as is the case of a purchase agreement, wherein if the buyer does not fulfil its obligations of delivering the merchandise and, requests the payment of the

price beforehand, the buyer is entitled to refuse to do so until the buyer has fulfilled the obligation of delivery under the contract. The exception of a non-performed contract also applies to this case. It represents both a means of dilatory defence and a means pressure to convince the seller to fulfil its obligations.[11]

Another version of the exception of a non-performed contract is the act of surrendering the asset to the seller (*laissé pour compte*), allowing the buyer to refuse taking the merchandise whenever it deems it to be inconsistent with the provisions of the contract, thus prompting the seller to make a new delivery. If this new delivery is within the contractual clauses, it can no longer be refused by the buyer. In his turn, the seller can assess whether the surrender was consistent with the contract, and whether it was abusively turned down by the buyer, case in which the former is entitled to require the rescission or the termination of contract, due to the fault of the buyer.[12] Until a new delivery from the seller, the effect is dilatory, as with the exception of a non-performance contract.

On the other hand, Romanian Case Law was sometimes founded on the financial connectedness thesis, and sometimes on the legal connectedness thesis. According to the first thesis, lien is a genuine and imperfect guarantee right, whereby the holder of another person's debt has the obligation of handing it back, and has the right to refuse doing so until its owner pays for the expenses made for its preservation, maintenance or improvements.[13] There being a financial connection between the unpaid debt and the litigious asset, the owner of the asset has the right of liens upon it, as guarantee for the payment of the debt and as a means of coercing the debtor to enforce the obligation.[14]

Case Law has also ruled that, under the second thesis, the legal connection upon which lien is based, is a form of expression of the exception of non-performance.[15]

### 3. Conclusions

Following this analysis, we believe that the assimilation of the two terms: lien and the exception of a non-performed contract, is not justifiable; there being fundamental

differences between them that we shall list in a future article. Therefore, we consider that, in fact, retention, exercised on the basis of the exception of a non-performed contract, does not correspond to a genuine lien because they are autonomous institutions. Therefore, the field of lien ends where *exceptio non adimpleti contractus* begins[16]; its existence being justified by the financial connection, not by the legal connection, unless it be accidental (whenever the possession of the thing and correlative claim are occasioned by the same legal relationship).

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## General Issues Regarding the Offence of the Trafficking in Migrants

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### Abstract

*Migration has accompanied the human society in its evolution, experiencing significant growth with its increased development. Against this background, illegal migration has developed into a fast pace, currently representing a problem for the European countries, generating multiple consequences. It requires a common policy, management and control. Unfortunately, in Romania, migratory flows have intensified, which resulted in complex structures, both in the legislative and the organizational measures taken in order to control and combat the phenomenon of illegal migration.*

**Key words:** migration, regional migration, illegal migration, criminal law.

**J.E.L. classification:** F22, K14, R23

### 1. Introduction

By law no. 565, adopted on 16.10.2002, published in the Official Gazette no. 813/08.11.2002 [1], Romania ratified the United Nations Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially of Women and Children, supplementing the United Nations Convention against Transnational Organized Crime and the Protocol against the Trafficking in Migrants by Land, Sea and Air, supplementing the United Nations Convention against Transnational Organized Crime, adopted in New York on 15.11.2000.

In this context, it can be seen that the Protocol on preventing and combating the trafficking in migrants has become, on 08.11.2002, an indirect source of Romanian Criminal law, the special part, which

required, in Romanian criminal law, either the incrimination of this act or the modification of the existing regulations in this matter.

When adopting the Law no. 565/2002, the offense of trafficking in migrants was criminalized in art.71 of GEO no.105/2001. Subsequently, this incrimination has been repealed by Law no. 187/2012. At the same time, the criminal regulatory developments in our country have experienced great upheaval, focusing on a profound criminal reform that included, among others, the adoption of a new Criminal Code.

Starting from the existing realities, the upward trend of the illegal migration in Romania, in the broader context of its amplification within the EU and the need to control and manage migration flows, the Romanian legislator in criminal matters, making reference to the documents of the European Council in this area, found it necessary to issue a new indictment of the trafficking in migrants, in the new Criminal Code, which came into force on 01.02.2014. This regulation, otherwise similar to that of art.71 of GEO no.105/2001, by the incriminating conditions, the essential requirements attached to the material element of the offense and the penalties provided, shows that the act of trafficking in migrants presents a high social risk.

### 2. The legal definition [2]

The Romanian Criminal Code, by the provisions of art. 263, defines the migrant trafficking crime as:

(I) Trafficking in migrants committed in order to obtain, either directly or indirectly, a material benefit, shall be punished by strict imprisonment from 3 to 7 years.

(II) When the offense has been committed:

a) in order to obtain, directly or indirectly, a material benefit;

b) by means which endanger the life, integrity or health of migrants;

c) subjecting the victim to inhuman or degrading treatment, the penalty shall be strict imprisonment from 5 to 10 years.

(III) The attempt shall be punished.

Based on the current text of the regulation, it can be seen that, in accordance with the Protocol against the Trafficking in Migrants, the offense of trafficking in migrants incriminates those actions that violate the rights of migrants, subject to such traffic. In addition, this indictment entails the fact that the trafficking in migrants is a species of human trafficking, which violates the rights of migrants, their dignity and freedom.

On the other hand, the legislator wished to stress that, in incrimination, under the legal text, the trafficking in migrants also means obtaining benefits, and also a person's illegally crossing of a state border, in this case, the illegal crossing of the Romanian state border. In the current regulation of art.263 of the Criminal Code, the offense of the trafficking in migrants, the Romanian criminal legislator thought and expressed it in two forms, namely a form-type and several aggravating forms.

Thus, art.263 paragraph 1 of the Criminal Code provided the form-type consists in recruiting, counseling, guiding, transporting, transferring or sheltering a person for the purpose of illegally crossing the Romanian state border and, in the same article, paragraph 2 provides for the aggravating forms, which consist in the act (under paragraph 1) committed in order to obtain, either directly or indirectly, a material benefit, by means which endanger the life, integrity or health of migrants, subjecting them to inhuman or degrading treatment.

Based on the findings of the specific regulation on migrant trafficking in the Romanian criminal law, we can notice that, by criminalizing this offense, it is intended to protect the interests of the Romanian state border legal regime in this matter and, specifically, the control exercised by the Romanian competent authorities upon the persons' entry and exist of the country.

### 3. Preexisting factors

#### A. The object of the offense

##### a) The legal Object

Regarding the legal object of the offense of trafficking in migrants, it appears that we are in the presence of a specific legal object; this includes, on the one hand, the respect of the social relationships that are born and evolve in relation to the compliance with the legal regime of Romanian state border, and, on the other hand, the social relations regarding the facts which violate the rules imposed in the matter of migration in Romania.

##### b) The material object

In the form-type, provided in article.263, paragraph 1 of the Criminal Code, the offense does not have a material object.

In the aggravating form, provided by the legislator in art.263, paragraph 2, let. b and c of the Criminal Code, the material object of the offense is the person's alive body, specifically of the migrant, if his/her security and life are in danger or if he/she has been subjected to inhuman or degrading treatment. We believe that, in the manner regulated in art.263, paragraph 2, let. a of the Criminal Code, the offense does not have a material object, though this form of the offense is an aggravating one.

On the other hand, there are opinions in the legal doctrine that, in the simple form of the offense, the trafficked person's body would represent the material object of the offense. [3]

#### B. The subject of the offense

##### a) The active subject

Regarding the active subject of the offense of trafficking in migrants, the legislator, in art.263 of the Criminal Code, did not provide for special conditions regarding the person who may commit the offense, so that any person or entity may be the active subject of this offense. [3, pag.319], [4, pag.395] Obviously, in this situation, it is necessary to fulfill the general conditions for the conviction of natural and legal persons. Thus, individuals must have reached the minimum age of 14, at the date of the offense, be responsible and commit the act by free will, unconstrained.

Regarding the legal entity, it may be the active subject of the offense if the act was

committed in achieving its object of activity or interest or on its behalf and it is not in one of the situations provided by law, when it is exempted from criminal liability, and if it committed the act with the guilty intention.

Based on these features of the active subject of the offense of trafficking in migrants, it can be concluded that this offense can be committed in all forms of criminal participation or incitement, complicity, authored, coauthored.

b) The passive subject

The offense of trafficking in migrants implies two passive subjects, i.e. a main passive subject, which is the state, and a secondary passive subject, which is represented by the migrant person.

The main passive subject is the Romanian State as holder of social values, protected by the incriminating rule of art.263 of the Criminal Code, represented by the state authorities that contribute to the enforcement of the legal regime of the state borders of land, sea, river and air.

The secondary passive subject, represented by the person who is trafficked, has some particularities, meaning that it can be a foreign citizen or a stateless person who does not live in Romania; he/she can be both a responsible or an irresponsible person. Moreover, depending on the concrete ways of committing the offense, as the legislator had intended to express in art.263 of the Criminal Code, the secondary passive subject can be both one person and a plurality of individuals. These, in turn, depending on the concrete embodiment of the offense of trafficking in migrants, can answer for the crime of illegally crossing the state border of Romania; to the extent they meet the requirements of the law on criminal liability.

#### 4. Content analysis

In the literature, there is an opinion that this presupposes the existence of a premise situation, i.e. of a person capable of being a migrant. [4, pag.395]

We appreciate that it is difficult to identify such a situation, although it is not excluded; in art. 263 of the Criminal Code, the legislator refers to the trafficking of any person who might be in the situation of the migrant status, without imposing special

conditions, and thus this person may be responsible, irresponsible, adult, minor, etc.

In this context, virtually anyone can be in a situation that could be susceptible to the migrant person, leading to the conclusion that this act of trafficking in migrants does not necessarily involve the existence of a premise-situation.

A) The objective side

a) The material element [3, pag.320]

According to art.263, paragraph 1 of the Criminal Code, the material element of the objective side of the offense of trafficking in migrants includes several alternative normative ways, namely recruiting, mentoring, guiding, transporting, transferring or harboring a person. In this regard, it is necessary to provide the minimal explanations about the meaning of these terms, which means, firstly, the active subject's actions, circumscribed to the purpose of illegally crossing the Romanian state border.

***The recruitment***

The meaning of this action relates to the solicitation, promise, discovery of a person and determining him/her to illegally cross the state border of Romania.

It is clear that the attraction of a trafficked person in an action of recruitment can be done by promises and through various forms of pressure.

If there is such pressure, and if it takes the form of physical violence, moral violence, threats, constraints etc., in the sense of criminal law, we have a series of offenses between migrant trafficking offenses and other offenses, respectively, beating or other violence, under art.193 of the Criminal Code, threatening, under art.206 of the Criminal Code etc.

***Mentoring***

With respect to mentoring, the legislator intended to refer to the activity of guiding a person in one direction, in order to advise him/her to illegally cross the state border.

Because this method can constitute the offense of trafficking in migrants, it necessarily requires the existence of the direct intention to guide and the commitment of guiding in order to provide information on illegal border crossing.

***Guidance***

it refers to the activity to accompany, to go along with the person or persons who are

going to illegally cross the border, accurately following a route or a direction.

In judicial practice, the perpetrator who carries out such an activity is called "guide". In this situation, it is also necessary to perform guidance activities with direct intent, because the accompanying activity aims specifically at the illegal crossing of the state border.

#### ***Transport***

It implies offering activities, making available the necessary means for the migrants' travel, and their actual movement from one location to another, including walking. The transportation vehicles are diverse, and only the ability of carrying out such an activity is important and not necessarily the conditions under which it are conducted. Often, adjacent to the transport, the migrants "benefit" of forged documents to facilitate illegal border crossing.

#### ***Shelter***

This action refers to the activity of concealing the migrants, sheltering them in protected and hidden locations, for concealing the illegal border crossing.

In order to be considered criminal offenses, these activities should fulfill an essential requirement, i.e. committing them in order to illegally cross the border of the Romanian state. The illegal crossing of the Romanian state border involves either entering or exiting the country through places other than the state border, or crossing it clandestinely. According to art.8 of GEO no. 105/2001 regarding the Romanian state border, the border crossing can be done legally by persons or by vehicles transporting goods through the border crossing points open to international traffic, the small traffic points or the other places of established under the implementing rules.

In addition, art.11, paragraph 2 of GEO no.105/2001 stipulates that, at the state border of Romania, there is organized and executed a specific control by the border police, which aims at verifying and establishing the conditions provided by law for the entry in and exit from Romania.

Consequently, the entry in or the exit from Romania, by failing to fulfill the conditions provided by law or by avoiding the border police control, represents the unauthorized crossing of the state border of Romania.

Thus, the specialized legal practice reveals that, during 2013-2014, an organized criminal group organized an illegal transit of more migrants through Romania; these were Syrian and Iranian citizens and Kurd nationals who headed towards destinations in Western Europe; each migrant paid amounts between 2500-3000 Euros, depending on the route taken and on the risks. This network of organized crime included transporters, recruiters, hosts, accomplices, trafficking routes and more means of transport. [5]

#### b) The immediate result

The crime of the trafficking in migrants has immediate consequence, such as the state of danger, which affects the inviolability of the state border of Romania.

Thus, the act creates a state of uncertainty about the legal regime of the entry in and exit from Romania, and the ability of the Romanian authorities to control this regime is questioned.

#### c) The causal link

In the offense of trafficking in migrants, the causal link is triggered "ex re".

There should be established a connection between the actions or activities representing the normative forms of committing the offense and the state of danger; this connection results from the simple commission of one or more of the normative ways of the commission of the elements listed in art.263 of the Criminal Code.

#### B. The subjective side

##### a) the subjective element

The offense of trafficking in migrants is committed with the direct intention qualified by purpose.

In the literature, there is also the opinion that, if the act provided for in art. 263, paragraph 1 of the Criminal Code can endanger the life, integrity and health of migrants or subject them to inhumane or degrading treatment; we may speak of indirect intention. [3, pg.322]

We appreciate that the offense of trafficking in migrants, in all its forms, can be committed only with direct intent.

Thus, in paragraph 1 of art.263 of the Criminal Code, the legislator meant that all the activities of committing the offense, even by means that endanger the life, integrity of migrants, circumscribe, necessarily, to the purpose of illegally crossing the Romanian state border.



By regulating the two aggravating forms of art.263, para.2, letters b and c of the Criminal Code, the legislator did not intend to show that we can commit this offense by another form of culpability than by the direct intent; the act of paragraph 1 was added the elements that led to its worsening, without changing the subjective element wherewith it is committed.

Moreover, the economy of the text set out in art.263 of the Criminal Code reveals that the purpose of the illegal crossing of the Romanian state border is maintained throughout its drafting, as perceived by the legislator.

#### b) Mobile

The act does not have, as a prerequisite, some reason, so that we could say that this offense does not need a mobile, according to the legal requirements.

Usually, however, there is a motivation for the act; in most cases it is represented by obtaining substantial material gain; obviously these situations will be addressed by taking into account the judicial individualization of the punishment.

#### c) Purpose

The purpose of the offense of migrant trafficking is a key requirement, firstly to qualify it as an offense; the purpose consists in the fraudulent crossing of the Romanian state border; secondly, this purpose highlights the existence of an aggravating form of the offense, i.e. the purpose of obtaining a patrimony, directly or indirectly.

## 5. Forms ways, penalties

### A) Forms of the offense

#### a) Preparatory acts

The offense is likely to be committed also during the preparatory phase, both by the material and moral way.

However, given the ambiguous character of these preparatory acts, the legislator has chosen not to criminalize, under any form, the preparatory acts of the offense.

#### b) Attempt

The attempt to the offense under art.263 of the Criminal Code is possible and it is criminalized, specifically, in paragraph 3 of the same text.

In this context, it is interesting to note an opinion expressed in specialized legal practice, showing that if the defendant's

action is interrupted by customs police intervention, the offense committed is seen as the attempt to the offense of trafficking in migrants and not as a committed deed. [6]

#### c) Consumption

Regarding the crime of trafficking in migrants, the consumption is achieved when committing any of the acts listed in the incriminating text, i.e. recruiting, mentoring, guiding, transporting, transferring or harboring a person, for illegally crossing the border.

It is not necessary, however, to achieve this goal by the perpetrator or by the migrant, although, as we noted, the legal practice also reveals other kinds of hypotheses.

In addition, the offense is liable to a phase of exhaustion, located at the time of committing the last act or action of those listed by the incriminating text.

### B. Method

Text incriminating text, provided for in art. 263 of the Criminal Code, provides several normative ways, the offense being committed through many alternative acts described by the legislative text. It is clear that, in reality, the ways for committing the deed are varied, depending on the specific situations determined by the perpetrator or by the migrant person.

### C Penalties

The offense under art.263, paragraph 1 of the Criminal Code is punishable mainly by prison from 2 to 7 years, and the aggravating form, provided by paragraph2, is punishable mainly by prison from 3 to 10 years, with the additional punishment of the prohibition of certain rights.

It is noted that the high level of maximum prison, both in the form-type and in the aggravating form, and the accumulation of the complementary punishment of the prohibition of certain rights with imprisonment, for the aggravating form, show that we are in the presence of an act with a high degree of social danger.

## 6. The aggravating forms of the offense

Examining the text of art.263, paragraph 2, let. a, b and c of the Criminal Code, we may notice that the legislator has criminalized three aggravating forms of the offense of trafficking in migrants.

a) The hypothesis provided for in art.263, paragraph 2, let. a of the Criminal Code

In this form, the actions of recruiting, mentoring, guiding, transporting, transferring or sheltering a person for the purpose of illegally crossing the Romanian state border, if committed in order to obtain, directly or indirectly, a patrimony, represents the first aggravating form of the offense of migrant trafficking.

Therefore, this aggravating form implies that the actions/activities referred to in art.263, paragraph 1, of the Criminal Code, and are essentially committed in order to obtain a material benefit.

This benefit must be assessable and the perpetrator can obtain it either directly or indirectly.

b) The assumption set out in art.263, paragraph 2, let. B, of the Criminal Code

In this situation, the aggravating form requires the recruitment, mentoring, guidance, transportation, transfer or harboring of a person for the purpose of illegally crossing the Romanian state border, by means which endanger the life, integrity or health of migrants.

We see thus that the specifics of this aggravating form, in addition to maintaining the purpose of illegally crossing the state border, are represented by the means used in order to carry out the criminal action, which are likely to endanger the life, integrity or health of migrants.

The legislator, apart from classifying the facts, by the initial goal set out in paragraph 1 of art. 263 of the Criminal Code, super-qualifies the deed, by also stipulating the purpose of threatening the life, integrity or health of migrants.

c) The assumption specified in art.263, paragraph 2, let. c of the Criminal Code

In this aggravating form, the offense lies in recruiting, mentoring, guiding, transporting, transferring or harboring a person for illegally crossing the Romanian state border, by subjecting the migrants to inhuman or degrading treatment. Obviously, in this situation, in addition to the original purpose of illegally crossing the state border, there is also another purpose pursued by the perpetrator, i.e. Subjecting migrants to inhuman or degrading treatment.

## 7. Conclusions

For these activities, listed above, to constitute the offence is required to be fulfilled an essential requirement, namely their commitment for the purpose of fraudulent passage of the State border of Romania. Crossing a border illegally or entry involves Romanian or leaving the country through places other than those intended for crossing State or surreptitiously. Based on this finding to the specifics of the crime of trafficking of migrants in the Romanian Criminal law it can be seen easily, that by making it a criminal offence is intended to protect the interests of the Romanian State in the legal regime of the frontier and, specifically, of the control exercised by the competent bodies at the entrance and exit of the Romania people.

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## Terms and Conditions for a Romanian Sovereign Wealth Fund

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### Abstract

*The sovereign wealth funds (SWF), as investment vehicles with diversified portfolios both at national and international level, have been proliferating especially since mid-2000. This process has accelerated in the context of the 2007-2009 global economic crisis. In their endeavour to provide the economy with the resources necessary to cope with the hardships of the crisis, many countries of the world set up their own SWFs. After an inconclusive try made in 2006, Romania is now in the process of evaluating the opportunities to establish such a SWF, capable to alleviate the developmental pressures caused by insufficient investment. The article aims at offering some suggestions in this respect.*

**Key words:** economic crisis, investment, Romania, sovereign funds.

**JEL:** G28.

### 1. Introduction

The idea of establishing a Romanian sovereign wealth fund (RSWF) is not a new one: it came out in the mid-2000, as a consequence of the “thirst” for fresh investments of the Romanian economy. It was seen as a potentially effective tool for backing the efforts of economic stabilisation and development meant to contribute to the reduction and, eventually, to the elimination of disparities between the Romanian economy and the economies of the other EU member countries.

One of the serious consequences of the 2007-2009 global crisis was the shortage of capital badly needed for ensuring the economic growth and financial stability. The

SWFs – in fact investment instruments with portfolios of diversified national and international assets – are able to contribute, at least partially, to solving such a difficult situation. This is the reason for the SWF proliferation after 2005.

From an extended perspective it is worth mentioning that at the level of the European Union (EU-28) there is a drive towards an integrated approach of these investment instruments, approach which is imperative for preserving the free movement of capitals among member countries. At the same time, such an integrated approach would be instrumental in fulfilling EU’s obligations deriving from various international treaties to which it is a party. This is also the reason why, alongside of IMF and OECD, the EU-28 is in favour of agreeing upon and adopting by consensus a code of conduct with respect to SWFs’ establishment and operation.

Under such circumstances, in Romania – as in other Central and Eastern European countries members of EU (for example Poland) – there is a growing interest in establishing new, as efficient as possible SWFs.

### 2. Brief historical overview

Certain initiatives to establish a SWF in Romania date back in the 1990s. Initially, the fund was to be based on state’s revenues obtained from the so-called “social parts” mandatorily subscribed by all state employees in the 1980s (whereby they became - on paper – co-owners of the national wealth), as well as, afterwards, on other revenues from the privatisation process. Unfortunately, the populist measures taken by the authorities of the time – consisting, primarily, in the reimbursement of the equivalent of the social parts subscribed by each employee - , coupled with the lack of a

viable strategy for the future restructuring and development of the Romanian economy have nullified from the very beginning those initiatives, contributing, at the same time, their part to the galloping inflation of the second half of the 1990s. [1]

The idea of setting up a Romanian SWF did not disappear, though: it was revisited and materialised in December 2006, when the creation of the National Fund for Development (NFD) was approved. In accordance with the legislation adopted in this sense, the NFD, initially endowed with 11 billion lei coming mainly from the privatisation of the Romanian Commercial Bank, was to finance mostly big infrastructure projects.

NFD was conceived as a tool for the capitalisation of the financial resources resulting from several important privatisations, performed in the context of the economic transition from the hyper centralised state control to the functional free market mechanisms. More precisely, NFD's main objectives were the following: [2]

- The prompt and transparent financing of infrastructure projects, of the state's debts derived from the retrocession of goods abusively confiscated during the communist era, as well as of the state's quotas of participation in projects based on European funds;
- The institution of an appropriate mechanism for the use of revenues obtained from the extended privatisation process.

In reality, until the end of 2008 NFD's resources have been depleted, being primarily used for financing Treasury's temporary deficits. In other words, resources have been diverted from their initial aim: financing infrastructure projects. Consequently, since January 2009 NFD is in a state of “clinical death”.

In view of the above, it can be said that NFD was nothing more than a surrogate of a SWF, because, *inter alia*:

- The legal framework is incomplete and confusing;
- It lacks a medium and long-term vision, and, hence, an appropriate investment strategy;
- Its activity is restricted to the national territory;

- It is implicitly subject to political interferences.

However, even though a (semi-)failure, the NFD has been Romania's first attempt to follow the international rules and practice in the field of sovereign wealth funds.

### 3. The case for a genuine Romanian SWF

In recent years the issue of creating a brand-new SWF in Romania came back into actuality. The number and professional standings of its supporters are growing. This is due to both the improving domestic and international economic climate, and, mostly, the solid opportunities offered by the Romanian economy.

*Stimulating factors.* It is common knowledge the fact that, in general, SWFs are based on revenues from the extraction and transformation of non-renewable natural resources. Romania has (still) important deposits of such resources (oil, natural gas, gold, silver, platinum, wolfram and other rare metals, mineral waters, etc.) that constitute attractive assets for a potential SWF. [3]

According to Romania's Constitution, “The mineral resources of public interest,(...) the natural resources of the economic zone and the continental shelf, as well as other possessions established by the organic law, shall be public property exclusively”. [4] Moreover, it expressly stipulates the state's obligation to ensure the “exploitation of natural resources, in conformity with national interests”. [5] The said resources “can be managed by autonomous régies or public institutions, or can be leased or let”. [6]

Another favouring factor for the creation of the RSWF is the fact that the Romanian state still has participations (mostly minority ones) in the capital of a number of important companies. Some of these participations could be transferred to the new SWF, as components of its assets.

Finally, mention should be made here of other factors with a stimulating effect, as for example the coherence and stability of the economic policy in general (and of the trade and the monetary policies, in particular), the upward trend of investment needs, etc.

*Potential benefits.* A functional RSWF would be highly beneficial for the Romanian economy. It would play a role of magnet and would have a multiplying effect on capitals –

both domestic, and foreign – in quest of fresh investment opportunities.

At the same time, new investments made by means of the Fund would allow for the introduction and use of new, environment-friendly technologies mainly in the exploitation of metal and non-metal deposits, thus contributing to the sustainable development of the economy.

Finally, given the fact that any respectable SWF has to be profitable, the Fund could make money from managing its own portfolio of assets. The gains obtained could be capitalised at the Fund’s level, thus contributing to increasing its resources..

#### 4. Conditions for establishing the RSWF

Even if the state of the Romanian economy is yet far from the desired one, the slight, but firm acceleration of the economic growth is visible. In this context, growing investment needs are also evident.

On the other hand, Romania is – and will remain – one of the richest European countries in oil and gas, as well as in other valuable raw materials, already mentioned.

These are only a few of the generic elements which substantiate the opinions according to which the setting up of a SWF in Romania becomes possible, even imperative. In order to avoid the negative experience of the NFD, it is necessary, though, to submit the new Fund to some very clear terms and conditions.

*General conditions.* The general conditions define the global framework within which it is advisable to establish and run a SWF. As a matter of fact, this global framework also implicitly determines the type of th SWF to be set up.

The first condition – of cardinal importance – is to have a clear medium- and long-run strategy stating the major objectives for the development of the national economy, as well as the tactical levers for reaching those objectives. The strategy has to single out the priority sectors of activity, where Romania enjoys competitive advantages [ ] In this latter sense, a brief empirical analysis seems to indicate the following priority fields of activity:

- Energy (extraction and primary transformation of resources, production and supply);

- Agriculture and food industry (mainly ecological production);
- Information technology – IT (mostly software);
- Transports (especially development of infrastructure).

It ensues from the above that, at least in the first phase of its activity, RSWF would prevalently have the characteristics of a development fund.

The second general condition – which is imperative, especially in Romania’s case – is the exclusion of any interference of a political nature in the Fund’s activity. In other words, once established as a public institutional investor and agreed the main directions of action, RSWF would benefit of full independence in deciding upon and using the most appropriate instruments for achieving their statutory objectives.

*Specific conditions.* In order to perform and to successfully compete with its pairs, any SWF has to abide by certain specific conditions. First and foremost, the legal instrument whereby the Fund is established must contain a minimal set of elements which are of essence for all legal persons: the statute, the budget formation and the headquarters.

The most comprehensive and complex of all is the Fund’s statute. It has to contain clear, transparent provisions mainly regarding the following particular aspects:

- The type of SWF (inter-generational, offensive, defensive, etc.);[7]
- The government (or independent) agency acting in the name and on behalf of the state by managing and exerting control over the Fund’s activities (e.g. ministries of finance or of economy, central bank, one of the already existing or a new, specially created government agency);
- Area of action (unrestricted, on both domestic and foreign markets, or limited to the domestic one);
- SWF’s resources (initial endowment from the state budget, bonds issues, retention quotas from the fees paid for the exploitation of oil and gas deposits, as well as of other non-renewable natural resources, etc.);
- Elements of the investment strategy to be followed by the Fund (main fields, ways and means of investment).

At the same time, the statute should provide – either explicitly, or implicitly – for the Fund’s independent operational management. This would mean that, even though the state owns the SWF and controls its activities, the SWF management exerts independently its attributions with respect to, *inter alia*:

- Recruiting and employing the human resources, in accordance with approved general policy lines in the field;
- Making use, within certain limits, of financial resources in order to cover current needs (or liabilities);
- Managing current, day-to-day operations of the Fund.

Depending upon the Fund’s orientation and clients’ options, it would be advisable to have in the statute explicit provisions on public-private partnerships. This would avoid potential legal hassles if and when such arrangements or agreements are envisaged.

As far as the SWF’s budget is concerned, its volume and structure depend upon its initial capital endowment and/or the volume and quality of the assets it manages. If, for example, the initial capital is insufficient and the assets are scarce or are not liquid enough, in order to balance its budget the Fund can borrow in the capital markets either against bonds it can issue, or by guaranteeing the loan with its own assets. [8]

As a general comment – and for being from the very beginning in line with the international practice in the field –, when planning for and in the process of conceiving the RSWF it would be advisable to take account of the so-called “Santiago Principles” (Generally Agreed Principles and Practices – GAPP), which plead for transparency, stability and predictability in the SWFs’ activities. [9]

## 5. Conclusion

The research undertaken evinces the fact that there is no legal impediment for the establishment of a Romanian SWF. On the contrary, such an initiative would be welcome and place Romania in line with international developments in the field of investment. At the same time, it would profit the Romanian economy, thanks to the multiplying effect the existence of such a Fund is generating on investment flows.

Consequently, RSWF is to be a public institution placed under the state’s authority, in charge with an as profitable as possible management of important assets (primarily non-renewable natural resources).

It is essential for Romania to have its own SWF and, thus, to follow the example of other countries in the region (for instance Poland) and benefit from their experience. This is due to the fact that, as one Romanian scholar notes, “the creation of a sovereign wealth fund is a measure of economic stimulation, acting as an instrument for financing national strategic investment projects in the absence of (the investor’s – n.t.) own capital or of (its – n.t.) access to the internal and international market. (...) If it is established in due time, it will be a potential stabiliser at macroeconomic level/emergency solution when exposed at asymmetrical shocks” [10]

As a final note, it is to be mentioned that, at least in the initial stage, the costs incurred by RSWF’s setting up and getting off the ground will be quite high. This is why providing a solid foundation of the project, as well as consensually mustering all interested parties’ political will are of utmost importance for the Fund’s success. [11]

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## Late National Approaches of Consumer Problems

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### Abstract

*The present paper reviews some of the late national approaches of consumer problems developed in countries such as Japan, China or other socialist economies where the evolution of consumerist society was inhibited for a long period of time, for various reasons, the concerns for consumer protection being left in the shadow.*

**Key words:** consumerist society, consumer interests, consumer protection

**J.E.L. Classification:** D18

### 1. Introduction

The answers formulated nationally to consumer problems within the market evolved differently from one country to another, under the influence of internal political, social and economic pressures.

A detailed analysis on the modalities for approaching these problems discloses the possibility of identifying certain patterns, general models in which the national systems developed in the field of consumer protection can be framed, in terms of specific key-elements, as: the identity assigned to the consumer, the main problem with which he confronts within the market, the solutions found in order to hurdle it off and the coordinating principles of the actions intended in the end for the increase of the safety level guaranteed to the consumer by that national system.

However, a complex characterization can be done in countries with tradition in market economy such as: the United States of America, France, European Mediterranean countries [1], Great Britain, Germany, Austria or Scandinavian countries [2]. Their consumer protection models were developed against the background of the very early manifestation of a consumerist society in a

continuous development, which facilitated the increase of the importance of consumption function, the diversification of its structure, but also the emphasis of the concerns for its quality.

Still, there are examples of countries in which the evolution of consumerist society was inhibited for a long period of time, for various reasons, the concerns for consumer protection being left in the shadow.

### 2. The Japanese model of consumer protection

During the end of the 19<sup>th</sup> century and the beginning of the 20<sup>th</sup> century, the Japanese consumer was encouraged rather to economize than to consume, in the idea of contributing to the resource fund necessary for supporting the extension of national economic and military infrastructure. In this context, the expenses for the consumption of products and services was considered a selfish act, which did not use at all to the general interest of the nation, respectively the fast economic modernization and the support of imperialistic expansion. That is precisely why popular mobilization on purpose to promote the consumerist objectives was regarded as a leftist measure, which did not find too many supporters, any attempt on these lines being kept down by the intervention of an authoritarian state, willing to repress the aspirations of the civil society which contradicted its interests.

The dawn of the Japanese consumerist movement are seen only after World War II, against the background of an extreme economic scarcity, which offered common citizens the chance to mobilize on purpose to support some democratic political goals, in an ordinary country, until recently, “to be rules from the center”. [3]

For a start, together with the representatives of workers, farmers and small-scale businessmen, the consumerist



activists embraced the goal of raising the national living standard beyond the subsistence level. As a matter of fact, unlike the actions undertaken by the activists on the American continent or the European one, Japanese consumers were not, until very late, the upholders of any form of governmental privatization or scheme for the non-regulation of economic activity. On the contrary, cheap products were sacrificed for the sake of consumption safety, which, as they appreciated, could be guaranteed only by the property of the state on the national basic services and the very strict supervision of all the activities undertaken by private economic agents.

In exchange, the attention of consumerist activists turned a lot on the safety of the products commercialized within the market, this also due to Japanese traditional values and beliefs which, since time immemorial, set a high value on the ritual of purity, strictly abided in all the daily activities, from the cleanliness of the house, to personal hygiene and the safety of the consumed food products. Thus, it is not surprising at all the attitude of Japanese consumers of avoiding imported products, especially food products, with a high apport of chemical substances and synthetic additives, attitude which initiated numerous frictions at the level of international trade, especially in the context of the globalization process of the markets.

At the commencement of the 1960s, in proportion as the process of economic reconstruction finalized, entering an era of sustainable growth, and especially after 1968, along with the adoption of the “Law for consumer protection”, the Japanese consumerist movement starts to go from strength to strength, pleading more and more fervent for the defense of citizens’ rights of the consumers. However, the lack of the implication of the state in the cultivation of the spirit of citizens-consumers is remarked, their interests together with those of the producers being treated as components of a relation with null sum, relation which, for the sake of the general health of national economy, had to be balanced in favor of the producers.

The last decades of the 20<sup>th</sup> century were, however, marked by the increase of the importance of consumption in the Japanese society, more and more aware of the

consumers needs, especially in the context of an ample process of non-regulation produced in all the fields of economic life, aspects which determined the proliferation of the associations for the protection of the interests of the consumers. In spite of that, the identity of Japanese consumers remains profoundly marked by the concern for the welfare of the nation in general, so that we often see them associated with the producers on purpose to develop the common political and economic goals. Likewise, they continue to support the protectionism in the field of agriculture, but also to prefer, in general, the autochthon industrial products to the detriment of the foreign ones, for reasons related more to the economic nationalism than to the quality of the products.[4]

### **3. Consumers movement in the socialist economies**

A particular case we stop our attention hereinafter points the consumer protection in the former communist countries, characterized by a command economy, in which the producers held a much more powerful position than the consumers, the latter being at the disposal of the former.

Ruled by a bureaucratic administration, the monopolistic command economy offered the consumers a stringent choice, limited only to the products and services realized by the autochthon producers and traders, despite the fact that these were expensive, of inferior quality and difficult to purchase. In this context, the producers were deficient in the incentives for increasing and diversifying their own offer, but also for improving its quality or reducing its price. As a matter of fact, by appealing to simple notions, as marginal utility or marginal productiveness, a constellation of economists proved that in such an economic system the allotment of optimal resources or, in other words, the economic efficiency is impossible.

Examples of countries which were in such a situation abound, from those in Central and Eastern Europe, the countries from the Former Soviet Bloc, to China and Cuba. Among these, *Yugoslavia* distinguishes itself by the most powerful tradition in the field of consumer protection, the first occurrence to this effect dating from the year 1957, along with the establishment of the Federal Bureau

of Family and Households, later reorganized, in order to become, in 1969, Consumers Association, an entity financed with public money, having the mission of encouraging the commercialization of superior quality products, at reasonable prices.[5]

Likewise, the consumerist movement was more obvious within the more liberal or more reformist regimes – against the background of some decentralization experiments of the economic activity and the increase of the importations of consumer goods or equipment and technologies necessary for their production, destined to satisfy the internal demand and financed with money accrued from Western European governments and banks. This is the case of *Poland* - where Consumers Federation, established in 1981, pursued a series of goals adapted to the emergent speech at the global level with regard to the rights of the consumers and their protection, but also of *Hungary* – where the National Consumers Council operated since, having similar goals. These represented the first voluntary organizations of the consumers in Central and Eastern Europe.

However, after the fall of the communist regime, along with the transition from the centrally planned economy to the market economy and the manifestation of the will of joining the European Union, these countries went through an ample reforming process for the construction of a functional market economy, which offers the consumers extended possibilities of choice, but also insures the observance of own interests by the producers.[6]

The first tangible initiative in relation to the establishment of a specific law destined to protect the consumers and an administrative body entitled with assignments in the field belonged to *Romania*, of all the countries which came from the former communist bloc, by the adoption, in 1992, of the Consumer Protection Ordinance. This result was remarkable, as a matter of fact, because it intervened in a country where, unlike the example of Poland or Hungary, besides the protective statute, a mentality of active and aware consumer did not exist.

#### 4. China and the consumer protection

A particular example of socialist economy which proved a larger affinity toward the problems of the consumers is represented by *China*. The process of market liberalization, started in the years 1978-1979, allowed the transition of China from the absence of a consumption economy, strangled by the existence of a planned distribution system, to the biggest consumption market in the world.

The Chinese regime of consumer protection developed especially during the last two decades, on the basis of a cultural heritage – the confucianist belief, which allowed the relatively easy introduction of pro-consumerist measures in the Chinese commercial culture. More exactly, from the point of view of the Chinese culture, traders are considered as dishonest persons - given the fact that one of the five basic norms of the Chinese popular belief - Confucianism, is honesty. As a matter of fact, regardless of how rich they might have been, traders “enjoyed” the least respect in Chinese society, since ancient times, a status caused greatly by the general belief according to which traders do not create a real value, but “they waste time” by passing the production realized by others from side to side. [7]

What is interesting is the fact that this process took place in a socialist economy where most of the enterprises were held or controlled by the state, consumer protection being framed by the communist government and party as a promotion instrument of a better living standard in favor of Chinese people, in order to assure an increased efficiency of national enterprises, but also to provide superior quality products destined both for the internal market, and especially for the external ones.

One of the main measures to which Chinese authorities appealed on purpose to protect the consumers consisted in the establishment, in 1984, of the Chinese Consumers Association, with the statute of governmental agency which promotes actively the rights of consumers at national level.

Apart from these, consumers associations were established in all the provinces and big cities in China, financed from public money, on purpose to counsel the consumers in relation to different problems and to protect

their rights when they are infringed. Their role also extends on the assistance of governmental bodies in the promotion of regulations regarding the quality of products and other measures designed to consumer protection.[8]

## 5. Conclusions

National policies designed to consumer protection, which nevertheless evolved in a different way over time, from state to state, under the influence of the internal pressures of political, social and economic nature - are more than ever subdued to the influence of external pressures, as a consequence of the process of economic globalization, becoming more concessive or even more restrictive.

In the new context, geographical criteria no longer represent an encumbrance in exercising the consumption function, and the national systems developed autonomously in the field become incapable of solving the possible transactional failures. Therefore, it is imposed to identify some efficient modalities and as simple as possible by which the countries of the world could cooperate in order to win the confidence of the consumer and to assure his protection when he decides to take action within the global market.

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## Competitiveness of Automotive Clusters in Romania

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### Abstract

*The automotive industry is an important sector of the European economy, based on a complex system of innovation clusters that are found in every EU country. The study focuses on a detailed research regarding the automotive field in Romania in terms of growth, its place and role in the auto industry and the European economy. The research also aims to study the competitiveness of the automotive clusters in terms of indicators such as employment, exports turnover. The results revealed that only 0.47% of the employed population work in automotive clusters and sector exports are growing steadily, reaching in 2014 to 24% of country's total exports. The automotive industry is currently one of the most competitive in Romania and the Romanian economy engine.*

**Keywords:** clusters, automotive, competitiveness, R&D, innovation

**JEL Classification:** F10, O32, R38

### 1. Introduction

The automotive industry is an area of great interest worldwide that supports economic growth and development and to Europe, is one of the engines of the European economy, being the sixth industry of Europe, intensely connected with many other industries.

The automotive industry is considered a strategic sector of the EU economy as it contributes to the creation of the export balance surplus through the trades of about four times higher than imports of cars and occupies about 12.7 million jobs, representing 5.8% of EU employment. Of these, 3 million are included in R&D and

permanent innovation, equivalent to 10.3% of the corresponding workforce sector. [1]

Manufacturers of automotive sector are represented both by major companies delivering finished vehicles in the market of around 250 production lines and a series of supply chains of components and sub-assemblies or companies offering a comprehensive range of services post sale. In 2013 European vehicle production was of 14.5 million cars, representing 19% of the total global of 84.1 million cars. [2]

Top 10 producing countries of automotive industry in the EU, by the size of production in the year 2013, including Romania, have produced 91.31% of the total European production. [3]

The automotive industry is an important sector of the European economy, based on a complex system of innovation clusters that are found in every country of the Union, which is part of the policy development and maintaining competitiveness in the global domain, offering success to clusters in this area.

Worldwide, the automotive industry participates with 3% to GDP creation, as a generator of jobs and stimulating progress due to the technologies used in research and development (R&D) and continuous innovation in the field, contributing to economic growth and development. [4]

Europe has to face increasing competition in the global domain. As a reaction, there were created clusters in the automotive sector in all EU countries to boost research, development and innovation in the field and at the same time, there is specialization and hierarchy of regional supply chains in order to create a supply industries within the EU. [5]

For an automotive cluster to be competitive firms need to have an innovative character because "innovativeness being the main driver of the competitiveness", mainly

to have a greater degree of skilled labor and patents, while even customers boost innovation potential. [6]

## 2. The analysis of competitiveness of Romanian clusters in the automotive sector

The four clusters of the automotive area in Romania have been established since 2011, although they were operational before its official establishment and receiving the cluster status. The data currently available on the activity and economic indicators of these clusters are still restricted and can be traced in Table no. 1:

Table no. 1. Clusters of automotive sector in Romania, march 2015

Cluster name	Year	No. of companies	No. of employees	Turnover (mil. Euros)	Exports (mil. Euros)	Location
Auto Muntenia Competitiveness Pole	2011	22	22388	3357	2420	South Muntenia region
	2012	22	22000	5250	5000	
SPRINT - ACAROM	2012	16	1963	202,7	25,0	South Muntenia region
Automotive Sud Vest Oltenia Pole	2011	36	12000	291	145,5	South-West Oltenia region
Automotivest Regional Cluster	2011	5	4361	377	360	West region
TOTAL	-	79	40324	9477,7	7950,5	-

Source: After Cluster Association in Romania, [www.clustero.eu](http://www.clustero.eu)

The four clusters in Romania consist of 79 companies, representing, as can be seen from Tables 1 and 2, a rate of only 8.65% of companies that are operating in the automotive field.

Romanian car exports in 2013 represented 7.2% of total exports, with an increase of 55.8% over the previous year, and of auto components of also 7.2%, with an increase of 18, 3% compared to 2012. [7]

The automotive industry presents comparative and competitive advantages both in terms of exports of passenger cars, with a growing share of 6.8% between 2008-2013,

below the EU average and the export of auto parts (increase of 5.7%), with unit values above the EU average. These figures confirm the integration of Romanian automotive companies in the both European and international value chain.

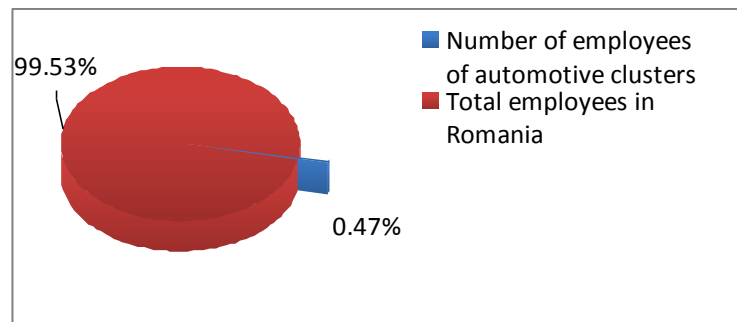
To analyze the competitiveness of automotive Romanian clusters Romanian we intend to determine which is the labor employed in these clusters in total civil employment of Romania and which is its contribution to export in the automotive clusters in total Romanian exports:

Table no. 2. Workforce and exports of automotivle Romanian clusters, 2012

No. of employees auto clusters	Total employees in Romania	Employees auto clusters/total employees (%)	Auto clusters exports (mil. Euros)	Total exports of Romania (mil. Euros)	Auto clusters exports/ total exports (%)
40324	8569600	0,47	5530,5	45069	12,27

Source: Romanian Statistical Yearbook, 2013 and [www.clustero.eu](http://www.clustero.eu) , accessed in 30 March 2015

Figure no. 1. Employees of automotive clusters in total employment in Romania, 2012

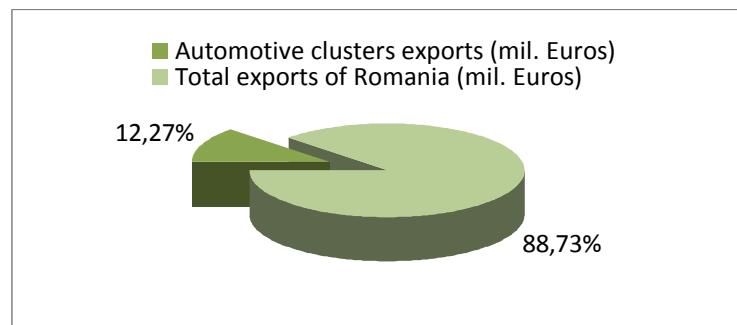


Source: Table no. 2

Regarding exports generated by automotive clusters generated in Romania in

2012 the situation is shown in the following graphic representation:

Figure no. 2. The share of exports in total automotive clusters, 2012



Source: Table no. 2

Figure no. 2 shows the contribution to the total exports of automotive clusters Romania. Realizing an association between the results shown in the two graphs we can conclude that 0.47% of the workforce in Romania made in 2012 over 12% of the country's total exports worth 45 billion Euros, which shows that Romanian automotive clusters have a high degree of competitiveness.

Due to limited sources of data on exports realized only by automotive clusters in the years 2013 and 2014 respectively, we present further the developments of the automotive sector exports (including exports of automotive clusters) of Romania reported to the country's total exports, knowing that the main motor vehicles and auto parts exporters from Romania, Dacia and Ford plants are members of clusters in the field, which means that most of the exports are made by them in the field. Also, most of the leading foreign suppliers of automotive clusters are members of the existing automotive clusters in Romania.

The value of Romanian exports in 2013 amounted to 49.562 billion Euros, in which the most important weight is held by the group of machinery and transport equipment, with a percentage of 42.7%, exports on auto segment, meaning both cars, and auto parts.

In 2014, Romanian exports hit a record high of 52 billion Euros, of which about 24% and 16.7 billion Euros, represents the contribution to total Romanian exports of the automotive industry, the industry with the largest share in the country's exports. The contribution of the automotive industry in Romania's GDP in 2014 was 11%. Romania's export structure is likened by specialists at the moment with that of Germany, where vehicles and auto parts manufacturing is 30% of exports, being also the industry with the highest percentage of foreign sales of products of the country with the largest economy in Europe.

Realizing a further comparative analysis between the two countries in terms of the auto industry, in Romania, about 120,000 employees work directly in the automotive

industry. If we include related industries, statistics show that almost 200,000 Romanian still receive salaries from the automotive industry. For Germany the automotive industry has an annual contribution to export earnings of about 370 billion Euros, representing a fifth of total exports. Regarding employment, about 900,000 Germans work directly in the automotive sector, plus another 4 million employees in upstream and downstream industries. [8]

In conclusion, we can say that these data provide competitiveness of the two countries in the world, even if we cannot achieve yet a comparison between them in terms of the level of technological development and diversification of the economic sectors that support exports.

Competitive structure of the main Romanian export products in 2014 is as follows:

*Table no. 2. Top 10 products of export of Romania, 2014*

No.	Products	Contribution to exports (billion Euros)
1.	Auto components	3,98
2.	Vehicles	3,00
3.	Car harnesses	2,92
4.	Fuels	2,4
5.	Car seats	1,29
6.	Tires	1,21
7.	Mobile phones	0,97
8.	Wheat	0,96
9.	Air or vacuum pumps	0,85
10.	Medications	0,82
	TOTAL	18,4

Source: [www.economica.net](http://www.economica.net)

It is noted that more than half of the main groups of products exported belong to the automotive industry. The first place is held by products and automotive parts of suppliers, with nearly 4 billion Euros, followed by cars produced by Ford and Dacia companies with sales of 3 billion Euros. Third place is held by electric wiring for motor vehicles, with sales of 2.92 billion Euros.

Romanian automotive product markets are diverse. Due to competitive prices, they were able to impose in a time of difficult global economic conjuncture, when other countries were hit hard by the financial crisis. Thus, exports of cars and auto parts showed continuous growth with the onset of the global crisis in 2008. Dacia vehicles are exported to more than 90% of production, being found today, as throughout Europe, in countries like France, Germany, Spain, Italy, the UK, and beyond its borders, in Egypt, Morocco, Algeria and Turkey. The markets targeted are Cyprus, Malta, Norway, Iceland, and Israel. On the auto parts, Dacia factories supply parts for Renault multinational

subsidiaries in South Africa, Brazil, Colombia, Morocco, Iran and Russia.

In conclusion, the analysis of automotive clusters in Romania and their exports, as well as Romania's total exports, clearly shows that the automotive industry is a very dynamic sector, which has become important since the years of the financial crisis through a strategy for penetrating markets through competitive pricing, characterized by a continuous increase in exports and diversification of markets on all continents.

### 3. Conclusions

The automotive industry is considered a strategic sector of the EU economy, being the sixth industry of Europe, intensely connected with many other industries and is one of the engines of the European economy, contributing to economic development.

This sector contributes to increased European exports and provides about 12.7 million jobs representing about 5.8% of EU jobs.

In Europe, the automotive field is based on a complex system of innovation clusters that are found in every country of the Union, policy part of the development and maintaining competitiveness in the global domain within the 250 lines of production sites in all EU countries. At the same time, there is specialization and hierarchy of regional supply chains in order to create a supply industry within the EU.

Worldwide, the automotive industry participates with 3% to GDP generation, as a creator of jobs and stimulating progress due to the technologies used in R&D and continuous innovation in the field.

Romania is in the top 10 largest automobile producing countries in Europe. EU exports of vehicles are found on all the major markets of the world, demonstrating that the European automotive industry is one of the most competitive in the world.

In Romania the sector of automotive industry is one of the most dynamic sectors of the economy and has the highest level of competitiveness due to innovative technologies involved, the exports generated both in the EU and non-European areas.

The analysis shows that about 0.47% of the labor force of Romania is in the automotive clusters. Auto sector exports have increased continuously since the early financial crisis started in 2008, reaching the end of 2014 at a rate of 24% of the total Romanian exports, being the industry with the largest share in the country's exports. The contribution of the automotive industry in Romania's GDP in 2014 was 11%.

Dacia vehicles are exported to more than 90% of production, being found today, as throughout Europe and beyond its borders.

In conclusion, the analysis of automotive clusters in Romania and their exports, as well as Romania's total exports, clearly shows that the automotive industry is a very dynamic sector, which has become important since the years of the financial crisis through a strategy for penetrating markets through competitive pricing, characterized by a continuous increase in exports and diversification of markets on all continents.

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## European Clustering Landscape - a Short Description

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### Abstract

*One of the objectives of the European Commission is to build a Europe based on knowledge, rapid and sustainable growth and on social progress. Cooperation between businesses, universities, research institutes and public authorities through forms of partnership of cluster type can support this objective. Defined by many experts by terms such as research cluster, Information and Communication Technologies (ICT cluster), industrial clusters and innovative cluster, this form of partnership rests increasingly often in discussion and public debates. Clusters have become the subject of a whole series of documents issued by national and international organizations; it is increasingly promoted the idea that due to clusters competitiveness increase, workforce specializes, businesses and regional economies develop.*

**Keywords:** innovative clusters, competitiveness, small and medium enterprises, regional and national economies.

**JEL classification:** C38, F20.

### 1. Introduction

More and more studies show that, in the current global competition, innovative clusters can become a favorable framework for creating and maintaining competitive advantages in key areas, ensuring the economic success of various regions and countries. Valences of clusters derive from the fact that they favor the development of intense connections between companies, institutions and public authorities, thus

promoting the creation and transfer of knowledge and innovative processes.

In the European Union innovation clusters and smart specialization are considered vectors of sustainable development, especially given the rise of globalization and extended competition to the global scale. Given the advantages offered by these networks, membership of companies, especially SMEs, to an innovative cluster provides a favorable environment for business development, due both to quick and easy access to research results to be implemented in order to achieve the innovative products, using advanced technologies and developing common strategies, based on the cooperation ones in the sphere of production to marketing. [1]

### 2. Clusters and competitive advantage

In an increasingly interdependent world, where companies, especially SMEs, must compete in the global market, clusters play an increasingly active role in creating and maintaining competitive advantages through potentiating of innovation and improvement of productivity. Due to the potential benefits that such "clusters" generate, clusters have attracted the interest of economists and of policy-makers at macroeconomic level.

The cluster concept has been enshrined in literature with the work of Michael Porter and is closely connected to the diamond summarizing the determinants of competitive advantage of nations. Porter describes clusters as "geographic concentration of interconnected companies and institutions in a particular field"; [2] He considers that clusters represent a new way of thinking/analyzing the location of industries, with significant effects not only on competitiveness on national markets, but also

globally. [2] Porter lies at the basis of competitive advantage labor productivity; from this perspective, clusters support the creation and maintenance of competitive advantage by: [2] productivity improvements of companies located in that area, by boosting innovation (which subsequently induces productivity growth) and by stimulating the creation of new business (which will contribute to the development of the cluster).

Essentially, clusters are generated by vertical concentration of companies and institutions in the same field; thus, due to geographical proximity and intensification of economic links between them, these companies can better exploit economies of scale and can reduce production costs. Meanwhile, the clusters become the engine of innovation because companies that cooperate and compete learn from each other and support the acquisition and transfer of knowledge. [3]

The importance of concentration of activities (especially vertically) in a particular geographical region was tackled for the first time in economic theory by Alfred Marshall; in his work *Principles of Economics*, he points out that industries concentrated in certain localities are usually described, even if not very fair, as industries located. [4] This localization of the industry (also described by the phrase "industrial district"), according to Marshall prepares the way for more modern developments of division of labor; among the advantages of the localization, he indicates inventions and improving of production equipment, processes and business organization, workforce qualification, creation and transfer/multiplication of knowledge ("if one man starts a new idea, it is taken up by others and combined with suggestions of their own; and thus it becomes the source of further new ideas ") etc. [5]

Agglomeration of industries generates a series of externalities, initially identified by Marshall and rediscovered by K. Arrow and P. Romer (MAR Externalities): [6]

- *Input externalities*, derived from suppliers' trend to locate near some producers concentrated in a particular industry; consequently, manufacturers can enjoy specialized services, reduced transport

costs and the possibility to obtain cheaper raw materials;

- *Labor market externalities*: industrial clusters favor the concentration of skilled labor and the development of specific valuable skills for companies; also clusters can improve the functioning of labor markets by balancing supply and demand;

- *Knowledge externalities*: clusters facilitate the exchange of information / knowledge and seem to be a form of cooperation very favorable for acquisition and diffusion of knowledge.

In the European Commission's Communication COM (2008) 652/2008 "*Towards world-class clusters in the European Union-implementation of the strategy based on innovation*" is underlined the importance of clusters, as the engine of economic development, the European Union Member States being encouraged to: [7]

- Integrate policy to support clusters in National Reform Plans, taking into account their European dimension, and to report on their progress;

- Support the integration of SMEs into clusters, by implementing the relevant recommendations from Small Business Act for Europe (SBA);

- Ensure complementarities and synergistic effects of various policy, programs and initiatives to support the development of clusters.

Accession of Romania to the EU has created a favorable development of clusters; Romanian law defines cluster as "... a group of producers, users and / or beneficiaries, in order to implement best practices in the European Union in order to increase competitiveness of economic operators". [8] In practice in our country initially, popular was the model "triple helix" that brings together in a cluster: [9]

- *Enterprises* - particularly SMEs (including start-ups and spin-offs) - representing the business side of the cluster or the demand for innovation;

- *Universities and research institutes, training centers* - representing providers of innovative solutions applicable to the real needs of businesses in the cluster;

- *Local, central, regional public authorities* with skills in facilitating innovative processes and harmonizing their development etc.

But experience has shown the need to adapt the model, being gradually transformed into a model *"Four leaf clover"* in which intervene catalyst organizations (consulting firms specializing in technology transfer and innovation, technology transfer centers, etc.) [10]

### 3. A short perspective on European clustering landscape

Clusters have become important elements of the European economy; European Cluster Observatory has identified over 2,000 regional clusters which have significant differences in terms of level of development, the partners involved, the degree of specialization, etc. [11] The increased interest to support these forms of European cooperation derives from relatively low performance in terms of innovation compared with other developed countries (USA, Japan etc.). Moreover, globalization and open markets facilitate the referral resource flows to the most attractive regions. Many European regions have developed competitive advantages in specific activities

such as financial services (London), petrochemicals (Antwerp), flowers (Netherlands), bio-pharmaceutics (Denmark-Sweden border region) etc. [11]

Regarding the attractiveness of these forms of cooperation, data presented in Table 1 indicate that Italy, Poland and Spain concentrate the largest share of the companies involved in clusters in the EU. In Italy there are about 234 clusters; Italy is known for traditional clusters in areas such as leather goods, jewellery and precious metals, textile, footwear and others, [12] etc. In Poland operate about 161 clusters in areas as diverse as education and knowledge creation, textiles, processed food, furniture etc. [13] In Spain there are about 151 clusters, most developing in areas such as maritime, farming and animal husbandry, agricultural products etc. [14]

Romania records modest performances (about 92 clusters in 2011); [15] of all firms involved in clusters in the EU, our country focuses only about 2.23%, but ahead of other European countries with higher levels of development.

Table no. 1. Distribution by countries of the companies involved in clusters  
(% of all firms in clusters in the EU)

Country	2007	2008	2009	2010	2011
Italy	19,68	19,00	18,82	18,88	18,81
Poland	14,18	14,32	13,81	14,02	13,96
Spain	16,01	15,04	14,65	14,24	13,88
France	8,47	8,41	8,70	8,66	8,62
Germany	7,61	7,52	7,67	7,89	7,93
Netherlands	5,44	5,92	6,68	7,39	7,75
Czech Republic	8,08	7,95	7,76	6,92	7,14
Sweden	4,55	4,56	4,78	5,07	5,05
Portugal	3,91	3,75	3,65	3,66	3,64
<b>Romania</b>	<b>2,56</b>	<b>2,73</b>	<b>2,55</b>	<b>2,24</b>	<b>2,23</b>
Finland	1,83	1,88	1,94	1,94	1,93
Denmark	1,58	1,61	1,59	1,60	1,59
Austria	1,38	1,39	1,41	1,45	1,44
Bulgaria	1,14	1,24	1,35	1,34	1,33
Belgium	1,07	1,12	1,15	1,15	1,15
Slovenia	0,53	0,76	0,83	0,86	0,86
Ireland	0,40	0,68	0,70	0,70	0,70
Lithuania	0,27	0,61	0,46	0,46	0,46
Cyprus	0,19	0,34	0,35	0,35	0,35
Slovakia	0,34	0,38	0,32	0,32	0,32
Latvia	0,26	0,28	0,29	0,31	0,31
Estonia	0,25	0,26	0,28	0,29	0,29

Malta	0,16	0,16	0,16	0,16	0,16
Luxembourg	0,09	0,10	0,10	0,10	0,10
Greece *	-	-	-	-	-
Hungary *	-	-	-	-	-
UK *	-	-	-	-	-

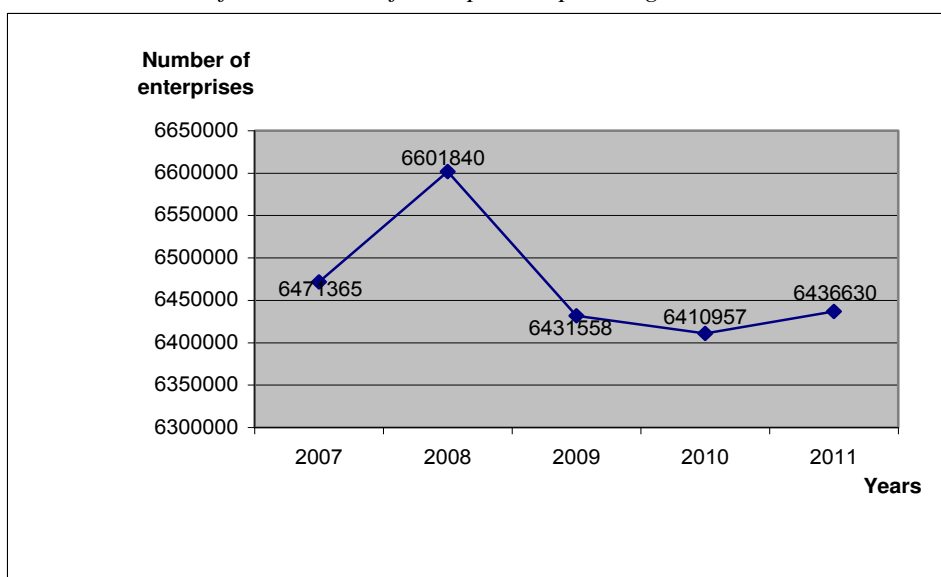
Source: after European Observatory Cluster, <http://www.clusterobservatory.eu/index.html>

\* There are no data on European Observatory Cluster

Overall in the EU, we see in Figure 1 an increasing trend in the number of companies involved in clusters until 2008, followed by a steep decline by 2010; from 2011 the number of companies involved in clusters signed back on an upward trend. Recent studies

conclude that companies' participation in cluster networks reduces exposure to adverse consequences of economic crises; these valences of clusters are more obvious for SMEs. [16]

Figure no.1. Evolution of the number of enterprises operating in clusters on the whole EU



Source: after European Observatory Cluster, <http://www.clusterobservatory.eu/index.html>

If we look at the profile of clusters in the EU in terms of concentration of employment (Table no. 2), we see that the largest share is held by clusters in Germany, UK, Italy,

France and Spain; Romania is among the 10 EU countries, but with relatively modest performance.

Table no. 2. The distribution of the workforce employed in clusters in the EU

Employed persons in clusters (% from total EU employed persons in clusters)	2007	2008	2009	2010	2011
Germany	18,64	16,81	16,72	17,92	18,29
Great Britain	15,87	13,97	14,28	14,18	14,11
Italy	13,94	12,22	11,94	11,85	11,79
France	11,28	10,31	10,72	10,83	10,78
Spain	-	10,21	10,44	10,36	10,31
Poland	6,13	5,67	5,57	5,59	5,57
Netherlands	4,21	3,70	3,79	3,76	3,74
Czech Republic	3,54	3,12	3,19	3,16	3,15
<b>Romania</b>	<b>3,86</b>	<b>3,40</b>	<b>3,47</b>	<b>2,83</b>	<b>2,82</b>

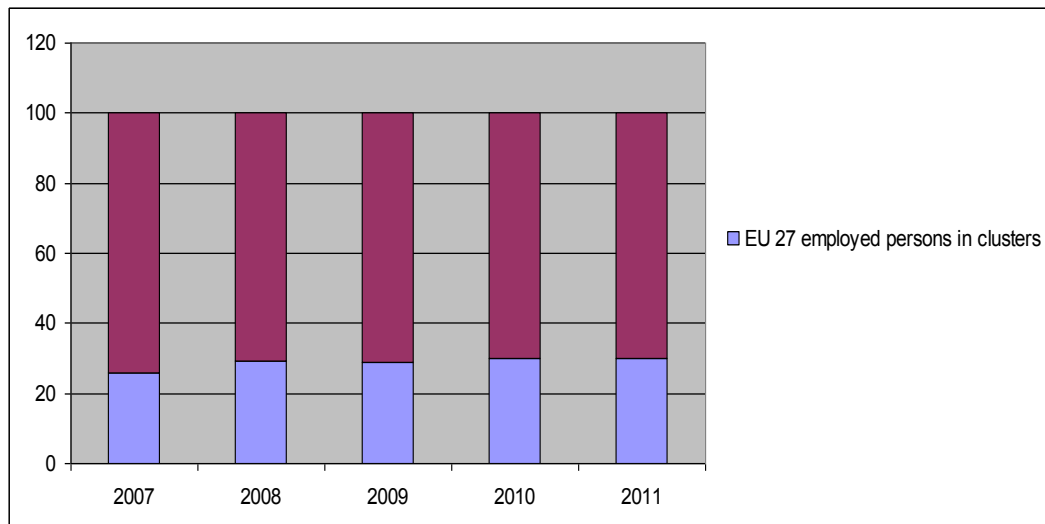
Greece	2,68	2,36	2,41	2,39	2,38
Portugal	2,86	2,50	2,40	2,38	2,37
Belgium	2,36	2,09	2,14	2,12	2,11
Austria	2,16	1,97	1,95	1,92	1,91
Hungary	2,08	1,86	1,82	1,79	1,81
Sweden	2,06	1,86	1,80	1,79	1,78
Bulgaria	1,89	1,73	1,65	1,49	1,48
Denmark	1,33	1,20	1,09	1,08	1,08
Finland	1,26	1,12	1,07	1,06	1,06
Slovakia	0,98	0,93	0,84	0,83	0,83
Ireland	0,35	0,64	0,65	0,65	0,64
Slovenia	0,55	0,55	0,53	0,50	0,48
Lithuania	0,69	0,54	0,45	0,43	0,43
Latvia	0,59	0,53	0,45	0,42	0,42
Estonia	0,38	0,32	0,25	0,25	0,25
Cyprus	0,09	0,21	0,21	0,21	0,21
Luxembourg	0,18	0,15	0,15	0,15	0,15
Malta	0,06	0,05	0,05	0,05	0,05

Source: after European Observatory Cluster, <http://www.clusterobservatory.eu/index.html>;  
<http://ec.europa.eu/eurostat/web/lfs/data/database>

At EU level, currently over 30% of the total workforce is concentrated at cluster level (Figure no. 2); In some areas, this ratio exceeds 50%, while in the other regions is less than 25%. [11] The concentration of the labor force varies by the specialty clusters; thus in clusters of knowledge-intensive areas

(ICT, automotive, bio-pharmaceutics, etc.) focuses typically a smaller share of the labor force (in these circumstances it is primarily about skilled labor force). In other areas such as education, construction, etc. workforce focus is broader.

Figure no. 2. The evolution of labor employed in the whole EU clusters



Source: after European Observatory Cluster, <http://www.clusterobservatory.eu/index.html>;  
<http://ec.europa.eu/eurostat/web/lfs/data/database>

#### 4. Conclusions

In recent decades, clusters have captured not only the attention of theoreticians, but

also of the decision makers at the macroeconomic level. This interest is derived primarily from valences that industrial "agglomerations" (or other) have in terms of priming competitiveness and economic

growth. Clusters have become true innovative cores, providing a framework for creation and diffusion of knowledge.

The deepening of globalization has boosted the role of clusters; as the markets are more open and integrated, the flows of material resources, the human and information flows are more fluid.

At EU level, clusters are considered engines of development for both companies involved (SMEs and large companies) as well as for regions in which they form and function. In the European economy, about one third of the labor force work in clusters and the number of companies interested in attending such forms of cooperation is growing. Strategies designed by the EU institutions pay attention to the development of clusters, especially in light of the Europe 2020 objectives.

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## The World’s Largest Oil and Gas Companies in the Period 2013-2014

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### Abstract

*Energy has always represented a highly debated topic both in the academic and business world. Oil and gas are at the forefront of the key ingredients of the modern economies.*

*The progress of human society was highly influenced by the development of oil and gas industry. During the time, big oil and gas companies have emerged all over the world and begun to dominate the industry.*

*The paper aims at presenting the evolution of the largest oil and gas companies in the world in the period 2013-2014. Our methodological approach is based on a literature review.*

**Keywords:** oil, gas, company, industry

**J.E.L. Classification:** F0

### 1. Introduction

Energy has always represented a highly debated topic both in the academic and business world. Oil and gas are not only major constituents of the energy system, but also ‘essential feedstock for many manufacturing processes’ [1].

Since the 19<sup>th</sup> century, the natural gas and oil extraction has started in several countries such as Russia, Romania, United States of America (USA), and Canada. In the 21<sup>st</sup> century, oil and gas supplies more than 50 % of global commercial energy consumption [2].

Oil and gas are at the forefront of the key ingredients of the modern economies. They

represent together the fuel of the world economy engine [3].

The progress of human society was highly influenced by the development of oil and gas industry. It is said that this industry has ‘revolutionized human lives and improved our standard of living’ [4]. During the time, big oil and gas companies have emerged all over the world and begun to dominate the industry.

Facing various challenges such as political constraints to access the reserves, reducing labor costs, price volatility or environmental risks, oil and gas companies play a fundamental role in the global economy. Modern technologies have appeared and provided new opportunities for producing ‘unconventional’ oil and gas.

The paper aims at presenting the evolution of the largest oil and gas companies in the world in the period 2013-2014. Our methodological approach is based on a literature review.

### 2. The evolution of the world’s largest oil and gas companies in the period 2013-2014

The oil and gas industry has rapidly evolved worldwide in the recent years. The year 2014 has been ‘a period of not only great profitability for the global upstream industry but also a time of considerable volatility’ [5].

The important changes in supply and demand have continuously reshaped the oil and gas market. In 2013, the top five countries with the largest oil reserves in the world were Venezuela, Saudi Arabia, Canada, Iran, and Iraq, and those with the

largest gas reserves were Iran, Russia, Qatar, Turkmenistan, and USA [6, 7].

The world oil demand has increased from 90.20 mb/d in 2013 to 91.15 mb/d in 2014, and is projected to be 92.30 mb/d in 2015 [8]. The emerging economies, especially those of Brazil, Russia, India, and China (BRIC), have driven the demand for energy [9]. In fact, China is the world’s largest net importer of oil [10]. On the other hand, the world oil supply has also grown in 2014 and will continue to grow in 2015.

The global oil and gas market dynamics are subject to a multitude of factors, such as:

- supply and demand,
- macroeconomic situation,
- geopolitics,
- financial markets,
- technology,
- US dollar exchange rate, etc.

In the last years, the global oil and gas market is dominated by companies located in different continents. The National Iranian Company (Iran) held the largest oil and gas reserves in the world in 2014 (Table 1), followed by Petroleos de Venezuela SA (Venezuela) and Saudi Arabian Oil Company (Saudi Arabia). Founded in 1951, the National Iranian Oil Company (NIOC) is dealing with a plethora of activities such as exploration, drilling, research and development, production, refining, distribution and export of oil, natural gas, and petroleum products. It consists of seventeen production companies and eight technical service companies.

*Table 1. The world’s ten largest oil and gas companies after their total reserves in oil equivalent barrels in 2014.*

Rank by 2014 oil equivalent reserves	Company	Total reserves in oil equivalent barrels (million barrels)
1.	National Iranian Oil Company (Iran)	357,486
2.	Petroleos de Venezuela S.A. (Venezuela)	330,920
3.	Saudi Arabian Oil Company (Saudi Arabia)	315,054
4.	Qatar General Petroleum Corporation	177,377

	(Qatar)	
5.	Iraq National Company (Iraq)	160,413
6.	Abu Dhabi National Oil Company (UAE)	126,388
7.	Kuwait Petroleum Corporation (Kuwait)	112,269
8.	Nigerian National Petroleum Corporation (Nigeria)	68,312
9.	National Oil Company (Lybia)	57,348
10.	Sonatrach (Algeria)	39,389

Source: *World’s Largest Oil and Gas Companies*, PetroStrategies, Inc., [http://www.petrostrategies.org/Links/worlds\\_largest\\_oil\\_and\\_gas\\_companies.htm](http://www.petrostrategies.org/Links/worlds_largest_oil_and_gas_companies.htm).

Last year, the largest oil company in the world was Petroleos de Venezuela SA (Table 2), followed by Saudi Arabian Oil Company and NIOC. Created in 1976, Petroleos de Venezuela SA (PDVSA) is owned by the state of Venezuela and is engaged in various activities such as exploration, production, refining, transportation, and sale of oil and natural gas. Saudi Arabian Oil Company was founded in 1933 as California-Arabian Standard Oil Co. It is owned by the Kingdom of Saudi Arabia and operates as a fully integrated, global petroleum and chemicals company.

*Table 2. The world’s ten largest oil companies in 2014.*

No.	Company	Worldwide liquids reserves (million barrels)
1.	Petroleos de Venezuela S.A. (Venezuela)	297,570
2.	Saudi Arabian Oil Company (Saudi Arabia)	265,850
3.	National Iranian Oil Company (Iran)	154,580
4.	Iraq National Company (Iraq)	141,350
5.	Kuwait Petroleum Corporation (Kuwait)	101,500
6.	Abu Dhabi National Oil Company (UAE)	92,200
7.	National Oil Company (Lybia)	48,010
8.	Nigerian National	37,200



	Petroleum Corporation (Nigeria)	
9.	Qatar General Petroleum Corporation (Qatar)	25,240
10.	OAQ Rosneft (Russia)	18,328

Source: *World's Largest Oil and Gas Companies*, PetroStrategies, Inc., [http://www.petrostrategies.org/Links/worlds\\_largest\\_oil\\_and\\_gas\\_companies.htm](http://www.petrostrategies.org/Links/worlds_largest_oil_and_gas_companies.htm).

In 2014, the largest gas company in the world was NIOC (Table 3), followed by Qatar General Petroleum Corporation (Qatar) and Saudi Arabian Oil Company. Founded in 1974, Qatar Petroleum (Qatar General Petroleum Corporation) is a state-owned company and operates all oil and gas activities in Qatar.

*Table 3. The world's ten largest gas companies in 2014.*

No.	Company	Total reserves in oil equivalent barrels (million barrels)
1.	National Iranian Oil Company (Iran)	1,187,000
2.	Qatar General Petroleum Corporation (Qatar)	890,000
3.	Saudi Arabian Oil Company (Saudi Arabia)	287,844
4.	Abu Dhabi National Oil Company (UAE)	200,000
5.	Petroleos de Venezuela S.A. (Venezuela)	195,100
6.	Nigerian National Petroleum Corporation (Nigeria)	182,880
7.	Sonatrach (Algeria)	159,054
8.	OAQ Gazprom (Russia)	139,533
9.	Iraq National Company (Iraq)	111,520
10.	Egyptian General Petroleum Corp. (Egypt)	77,200

Source: *World's Largest Oil and Gas Companies*, PetroStrategies, Inc., [http://www.petrostrategies.org/Links/worlds\\_largest\\_oil\\_and\\_gas\\_companies.htm](http://www.petrostrategies.org/Links/worlds_largest_oil_and_gas_companies.htm).

In 2013, Royal Dutch Shell (Netherlands) dominated the top of the ten largest oil and gas companies of the world with revenues of \$459,599 millions, followed by Sinopec Group (China) with \$457,201 millions and China National Petroleum with \$432,007

millions (Table 4). The most profitable company in the oil and gas industry was Gazprom (Russia) with \$35,769 millions, followed by Exxon Mobil (USA) with \$32,580 millions and BP (UK) with \$23,451 millions (Table 5).

*Table 4. The world's ten largest oil and gas companies after their revenues in 2013.*

No.	Company	Revenue (\$ millions)
1.	Royal Dutch Shell (Netherlands)	459,599
2.	Sinopec Group (China)	457,201
3.	China National Petroleum (China)	432,007
4.	Exxon Mobil (USA)	407,666
5.	BP (UK)	396,217
6.	Total (France)	227,882
7.	Chevron (USA)	220,356
8.	Gazprom (Russia)	165,016
9.	Phillips 66 (USA)	161,175
10.	ENI (Italy)	154,108

Source: Fortune Global 500, *Fortune*, 170 (1), 21.07.2014, p. 62.

*Table 5. The world's ten largest oil and gas companies after their profits in 2013.*

No.	Company	Profit (\$ millions)
1.	Gazprom (Russia)	35,769
2.	Exxon Mobil (USA)	32,580
3.	BP (UK)	23,451
4.	Chevron (USA)	21,423
5.	China National Petroleum (China)	18,504
6.	Petronas (Malaysia)	17,180
7.	Rosneft Oil (Russia)	17,111
8.	Royal Dutch Shell (Netherlands)	16,371
9.	PDVSA (Venezuela)	12,933
10.	Total (France)	11,204

Source: Fortune Global 500, *Fortune*, 170 (1), 21.07.2014, p. 74.

### 3. Conclusions

Energy has always played a key role in the business world. That is why the importance of oil and gas industry has been recognized both by economists, politicians, managers or businessmen. The global oil and gas market is a dynamic and highly competitive market that is influenced by a multitude of factors.

Our paper has shown that the global oil and gas market is dominated by big

companies that are located all over the world. Also, it contributes to a better understanding of the evolution of these companies and provides a platform on which to build further researches on this interesting topic.

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# Psychic Distance, Foreign Direct Investments and Host Country

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## Abstract

*This article aims to investigate the relationship between FDI and the host country's development through the concept of psychic distance.*

*Foreign direct investments influence positively and negatively local firms and finally contributes for development of the host country. As greater is physical distance, a smaller volume of foreign direct investments are between host country and investing country.*

*By analyzing the literature in recent years we can affirm that foreign direct investments impact on the host country is to accelerate the development and decrease psychic distance.*

**Key words:** foreign direct investment, local firms, host country, psychic distance

**J.E.L. classification:** F23, F43, O11

## 1. Introduction

Determining the precise link between foreign direct investment, economic growth and development is far from being established. It is widely accepted that foreign direct investments (FDI) influences growth and development. Although not familiar with the details of empirical research, most politicians understand this and see it as a priority to promote FDI [1].

Overall, FDI can be viewed as a potential development greater than local investments because foreign companies are more willing to bring with them "best practices" in terms of technological development. This idea can be considered primary and basic necessities investment in emerging and developing economies or economies in transition, ongoing consolidation of the market

mechanism. Adding positive influences on local businesses, it becomes clear that attracting FDI is a priority of any government's economic policies.

## 2. Methodology

This article analyzes the influence of FDI on the host country and the impact on psychic distance.

A content analysis of relevant FDI articles about FDI, psychic distance and host country have been made. The analysis was focus on the influence of FDI on the host country. Psychic distance plays an important role in attracting FDI.

The selected articles were published during 1978 – 2007 in Journals of Economics. The results of this analysis will be showed in article conclusions. Psychic distance between the host country and investing country generate the type of foreign direct investments. If the distance is less, the FDI will be directed towards the search for strategic assets.

## 3. Relevance of the topic in the extant literature

FDI attraction policies have been analyzed in numerous studies and renowned international organizations (UNCTAD - "World Investment Report", OECD - "Foreign Direct Investment Incentive Checklist for Policies"). Most of the researches relates to emerging and developing countries, where policy is more active about investment attraction and trade policy of the state is an important factor. In general, open economies have attracted much easier foreign direct investments [2].

Competing to attract foreign direct investment, most often with regional economy, the host country can subsidize handsets, a proportion lower or higher FDI entry through government aid and tax policy

measures. Choosing the FDI recipient country is based on several criteria, and the competition between government policies can lead to more or less effective [3]. One of these criteria relates to the policy of promoting foreign trade and export support. The requirement of prior existence of such government policies affect the decision to invest in FDI [4]. The quality of local infrastructure, mainly telecommunications and transport [5] and the presence of a skilled workforce [6] influences the decision to invest of FDI. In general, the macroeconomic policy of the state influencing the decision to invest of FDI through public investment policies, which are of two kinds: general policy and specific policies. General policies refer to the environment in which it operates FDI: industrial policy, infrastructure, foreign trade policy, exchange rate policy etc. General policies are the most effective tools for attracting FDI. Depending on the impact of FDI on local firms can implement policies, be supportive, be discouraged foreign direct investment. If there is a reduced influence of FDI on local firms, host state policy should be towards education and managerial training. There is a wide range of specific economic policies to encourage FDI, but in general, businesses are investing in the host country where there is a priori a local development factor.

To analyze the link between FDI – host country, economic literature brings a model of internationalization of the company [7]. According to this model, as the development gap between the two economies called "psychic distance" is greater, the less opportunity to invest in the economy of the host country less developed. The need for development of local economies requires new technologies to be imitated or implemented in a sustained rhythm. The speed of implementation of technologies is a true barometer of the influence of foreign direct investment. If foreign direct investment quickly establish upstream and downstream networks, technology transfer takes place at the same pace. The fact that psychic distance is directly related to the potential development of local firms. Seems more plausible than statements, that the rapid deployment capability is the most important factor of technology transfer [8].

#### **4. The impact of foreign direct investment in host country**

The main benefits of FDI are: the contribution of financial resources, the transfer of management skills and know-how, implementing organizational techniques, modern technologies, funding local capacity for research and development and increase foreign trade.

Foreign direct investment influencing foreign trade. As regards Romania, the link FDI - foreign trade is highlighted by: promoting exports by FDI, improvement of the system of prices and payment conditions in export and import, facilitating access to new sources of raw materials, increasing the volume of currency benefits putting companies in contact with Romanian foreign market, to better adapt to the requirements of Romanian exports on the world market (technical, quality, presentation and packaging), avoiding intermediaries through direct sales, obtaining significant tax and customs facilities for products exported [9]. Transnational activities generated by foreign direct investment and exports are increasing the host country can support, in order to ensure a production of purely internal market to an international market. Export growth offers many advantages: technology transfer to local businesses, economies of scale that integrates national companies in the production chain, increasing competitiveness and a better understanding of the market potential.

When a multinational company establishes a branch or acquire shares of foreign companies in the financial market, it aims to ensure the highest possible rate of profit. The advantage of investing firm is given the technological parameters and techniques used in the production and distribution methods in the local market. National companies can benefit from contact with FDI through vertical integration in the production chain or services as subcontractors. The technology transfers occur. This transfer takes place by local companies with the transition to a higher stages transnational technology company from research and development. The investing company always keeps its competitive advantage over local firms. One example of technology transfer is the German

foreign direct investment in the auto industry that have relocated oldest production lines in China and keeping in the country the last production models. This practice of large transnational companies is quite common in emerging and developing economies due to demand and the need for diversified outlets.

It identifies four ways for transfer of technology to the host country: FDI imitation production process, learning management practices, the effect of competition and increase exports of local firms. Mimicking the production process is the classical mechanism of transferring new knowledge and technologies. The literature is well known example of technology transfer "North-South", which is widely discussed by many economists. The magnitude of transfer of technology depends on the complexity of the production process. Imitation is not the same with the replication (copying). Any improvement of technology through imitation, will have influence on the productivity of local firms. A new production technology can also occur due to human capital consists of foreign direct investment. Workers transferred to local firms become direct agents of the transfer of technology or management technique. This process can be considered as one of the most important aspects of foreign direct investment relationship - development of local firms [10]. Another effect of FDI on local firms is shaped by the key role played by competition [11].

In developed markets is generally carried out a fierce competition with local firms. Even if local companies are still in the production process and technology imitating foreign competitors, they are forced to use existing technology more efficiently to reduce the productivity gap. In addition, competition may increase the speed of implementation of new technologies and marketing strategy and management.

The growth and diversification of the country's exports is another factor receptor indirect interaction between FDI and local firms. They learn how to export from transnational companies. Exports generally involves fixed costs, establishing distribution networks and transport infrastructure creation. Transnational companies are familiar with these strategies. Through imitation and copying, local firms can learn

to internationalize their businesses, increase their productivity, created new exploit economies of scale, acquire new production methods and management techniques and reduce the "technological distance".

## **5. Foreign direct investment, host country and psychic distance**

The notion of psychic distance is perceived as the difference between development of host and investing countries but also as an opportunity to access new technologies. Higher psychic distance generate in host country to hold human capital, physical infrastructure and distribution networks to support investments. This affects not only the decision to invest of FDI, but also the type of technology transferred. Local firms can benefit for this development strategy. If psychic distance between FDI and domestic firms is not too high, local firms can absorb know-how.

Local firms using outdated production technologies and low-skilled workers will not be able to transfer technological know-how information, available only to companies that use superior technologies. Foreign firms have specific facilities that allow them to use superior technology, lower marginal cost compared to a local competitor and thus divert demand for products and services produced and offered to the market entry of the host country [12].

Following the move to channel demand, foreign direct investment leads local firms to reduce production and to change the cost curve. A similar type of competition causes influence of FDI on local firms in host countries where multinational companies are mainly geared to export. Sometimes competition with local firms is limited or nonexistent.

Multinational companies retain their distinct advantages to local firms. The only way that local companies can improve their business is competitive pressure that forces them to adopt more efficient production techniques and higher wage levels. This competition may have adverse effects on local firms in the short term, but in long term it ensures technological development. Ireland is one example, where competition in the labor market between multinationals and local firms in same economic sectors

generate more skilled labor. The entry of multinationals in the local market increased demand for skilled labor. Reference wage growth forced local companies to offer the same salary level offered by foreign direct investment.

The nature and impact of foreign direct investment depends on the economic general policies of host country. If foreign companies invest in a country that substitute imports, will be in competition with local firms and thus must improve their technological advantages. If FDI are established in a host country that promote exports, foreign direct investment must increase the competitive advantages. It will be supported by the ability to use their own international markets and distribution networks to the detriment of production data technologies.

Economists affirm the existence of negative effects of FDI on local firms - attracting demand from local firms [13]. Since foreign direct investment using superior technology, FDI can generate lower marginal cost than a local competitor. FDI can attract demand from local companies witch will be forced to reduce production and to change the cost curve.

FDI competitive pressure causes to local firms to improve their productivity and adopt more efficient production techniques. But on the other hand, this competition may have adverse effects on local productivity in the short term and affect only a particular group of companies operates in industries where foreign direct investment are invested.

By setting a receiving country with a trade regime that substitute imports, FDI will compete with local companies that can benefit from the effects of development, whether psychic distance is not too high. Local firms with less developed production technologies and low-skilled workers will not be able to transfer technology. Technological distance determines positive or negative effects, when FDI relocation handsets market are made. Relocation can have positive or negative effects on local firms to increase productivity, comparative advantage and increased trade flows, but also decrease the number of jobs and specialization in lower value-added production. The main way to increase productivity is sometimes to reduce staff [14].

## 6. Conclusion

FDI pursue capitalization firm capabilities through greater profitability across national boundaries, which explains the level of development of the investing countries. The investment decision is influenced by: the investing country's competitive advantages, viability of local factors, the market size and extent of the risk of operating in a new market and psychic distance between the host and investing country. FDI motivations have changed following the changes that have affected the world economy (technology development, information and communication, increased competition, liberalization of business etc.). Also, the type of FDI motivations has evolved from the search for markets, resources, efficiency to strategic research.

Host country will perform its macroeconomic objectives by attracting FDI, through a strategy of economic policies and the existence of an institutional framework open to foreign assets. These policies can be based, focused on attracting and maintaining FDI in a particular sector or complex policies by targeting of FDI to certain strategic economic sectors or to specific regions. Psychic distance between the host and investing country influence the type of foreign direct investment. If the distance is less, FDI will be directed towards the search for strategic assets.

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

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



# Flexible Corporate Legal Framework in the Actual Context of European Integration

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## Abstract

*Our paper is about actual framework corporate laws and regulations and its generated practices. In the context of European integration, companies extend the scope of their structuring possibilities by cross-bordering into other member states for flexible legal framework and investment climate. In the EU and EEA companies had three possibilities to effect cross-border transformations. One option available to all member states was and still is the cross-border merger, which however presents the disadvantage that the absorbed company is dissolved and the transfer of assets into a different member state may generally trigger real estate transfer tax. A second possibility is the relocation of companies' administrative seats in a different member state while the company continued to be governed by the law of the original country. Finally, is about companies' conversion into entities named Societas Europaea and have its registered office transferred within the EU.*

**Key words:** flexible legal framework, cross-border mergers, cross-border conversions, real seat theory, real seat doctrine

**J.E.L. classification:** F23; K22

## 1. Introduction

In recent years, companies have consistently attempted to extend the scope of

their structuring possibilities by trying to cross the borders into other member states for various reasons ranging from a more flexible legal framework to a better market environment and investment climate. Young legal professionals [1] consider: “The possibilities for cross-border restructuring measures were rather limited, as companies in the EU and EEA had essentially only three possibilities to effect cross-border transformations”. They founded several solutions: “One option available to all member states was and still is the cross-border merger. This presents the disadvantage that the absorbed company is dissolved and the transfer of assets into a different member state may generally trigger real estate transfer tax. Depending on the theory embraced by the member states (the incorporation theory or the real seat theory), a further possibility for those states which have adopted the incorporation state doctrine consisted in the relocation of companies administrative seats in a different member state without having to wind-up the company in the home member state, while the company continued to be governed by the law of the original country. Last but not least, a company could (and still can) be converted into a *Societas Europaea* and have its registered office transferred within the EU”. A *Societas Europaea* is by law allowed to relocate its seat while preserving its commercial and legal entity. Until recently, moving a company's registered office to another member state would have implied the winding-up of the respective company in one country and its re-incorporation in the other

member state, as no EU rules enabling corporations to transfer their registered seat into another member state while preserving the companies' legal personality existed.

## 2. Cross-border merger as still available option

When a firm acquires a controlling interest in another it is called an *acquisition*; when two firms joint to form a new firm, it is called a *merger*. Under the criterion for good management of maximizing current shareholders' wealth, there are essentially three reasons for considering acquiring or merging with another company: synergy, taxes, or bargains in the stock market[2]. Synergy is said to exist if: by combining two companies, the value of the operating assets of the combined firm will exceed the sum of the values of the operating assets of the two companies taken separately ( $AB > A+B$ ). Such synergy will occur if there are economies of scale in the production or distribution of the products of two or more firms. About taxes reason, there is a great temptation but taxation laws may greatly limit the use of a firm's net operating losses to offset profits in entities that acquire the firm after the losses occurred. American corporate experience shows us that mergers and acquisitions phenomenon has been a major influence in restructuring corporate sector. Some authors say that the top of this trend was the opposite phenomenon divestitures or “reverse mergers” [3]. The different types of divestitures may be summarized as follows: sell-off, spin-off, liquidation and going private[3]. *Sell-off* is the sale of subsidiary, division or product line by a company to another; *Spin-off* is the separation of a subsidiary from its parent, with no change in the equity ownership; *Liquidation* in this context is not a decision to shut down or abandon an asset. Rather, the asset are sold to another company, and the proceeds are distributed to the stockholders; *Going private*: a company goes private when its stock that has traded publicly is purchased by a small group of investors, and stock is no longer bought and sold on a public exchange. In a *consolidation*, two or more companies combine to form an entirely new entity. The distinction between acquiror and acquiree becomes blurred because shares of each of

the consolidating companies are exchanged for shares of the new company. Both of the consolidating companies lose their independent existence, often becoming subsidiaries of the new company or, in combination, becoming the new company. When two companies of roughly (approximate) equal size combine, they often choose to consolidate. When they are of unequal size, one company acquires the other through merger. Usually the larger company acquires the smaller, although this is not always the case. The distinction between a merger and a consolidation is important in a legal sense, but the same analytical technique apply to both. There are several important questions to put before any merger endeavor [4]. First of all, *Why companies merge?* The most important reason is about the objective of maximizing shareholder wealth. Second, *When do mergers create value?* The shareholders of an acquiring company can benefit from a merger only if the two companies are worth more in combination than separately. To provide a framework for discussion, suppose that acquirer and acquiree are worth  $V_a$  and  $V_b$  in total market value (that is, the total market value of their assets), respectively. They would be worth  $V_{ab}$  in total market value in combination. The acquirer must normally offer the acquiree's shareholders some premium,  $P_b$  above  $V_b$  to induce them to sell their shares. The acquirer also incurs various costs and expenses ( $E$ ). Finally, the key question is *What is the net advantage to merging* (NAM). The net advantage merging to the acquirer's shareholders equals the difference between:

1. the total market value of the company post-merger net of the cost of completing the transaction and
  2. the total market value of the companies before the merger
- $$NAM = (V_{ab} - E) - [(V_b + P_b) + V_a] \text{ or,}$$
- $$NAM = [V_{ab} - (V_a + V_b)] - P_b - E$$

If the net advantage to merging is positive, the merger would increase the wealth of the acquirer's shareholders. The term in brackets in equation represents what is commonly referred to as the *synergistic effect* of a merger. The whole is worth more than the sum of the parts when this expression is positive. Under de Principle of Two-Sided Transactions the premium  $P_b$

represents both a gain to the acquiree’s shareholders and a cost to the acquirer’s shareholders. Even if the synergistic effect is positive, the acquirer’s shareholders will benefit only if the premium  $P_b$  and the expenses are less than the synergistic benefits. One of the more interesting issues in the area of mergers and acquisitions is the size of  $P_b$  in relations to  $V_{ab}-(V_a+V_b)$ . If  $P_b$  is large enough,  $NAM$  can be negative. In that case, the acquirer will have “overpaid” for the acquisition.

### 3. What is in fact a *Societas Europaea*?

The history beginning of *Societas Europaea* (SE) is linked of labour market. In 1970s, EU introduced the obligation to “inform and consult” employees or their representatives regarding “collective redundancies” and “transfer of undertaking”. In 1994, Directive Council stipulating the established of Works Council. In 2001, European Company Directive 2001/86/EC adopted the “before and after” principle of employee participation when establishing an SE. With this Directive, employee board-level participation was recognized for the first in European legislation. The Directive 2005/56/EC on Cross-Border Mergers laid down the rules of corporate governance for legal entities resulting from mergers of companies established in more than one member state of the EU. Nowadays, the European Company Statute stipulated that the registered office of an SE must be in the same member state where the head office as principal place of business is located, but once it has been established, it may be transferred to another member state. The main reasons for a SE is established are following: (i) facilitate cross-border mergers; (ii) simplify doing business within the EU; (iii) ease taxation procedures; (iv) ensure efficient management structures; (v) avoid having to expand employee participation rights in board of administration. SEs are formed by many and different ways: merger, holding, subsidiary and conversion. Conversion process needs to pass several stages[5]:

- Management draft and submits a report that explains and justifies the legal an economic aspects, and indicates the implications for the

- shareholders and employees;
- Negotiations with employee representatives regarding employee involvement in the SE;
- Publication of the terms of conversion;
- Agreement on employee involvement;
- General Meeting agrees to conversion;
- Registration as an SE.

Specific issues in Germany are about [5]: (i) two-tier system of management; (ii) scope of agreement (EU, EAA, others); (iii) co-determination; (iv) employee representatives want more than the standard rules; (v) financial and material resources to represent employees; (vi) translation/interpreting and confidentiality. Official point of view of the Commission and the answer at more frequent question about expected advantages of setting up a European Company is: the European Company Statute (ECS) “*will mean in practice, that companies established in more than one Member State will be able to merge and operate throughout the EU on the basis of a single set of rules and a unified management and reporting system. They will therefore avoid the need to set up a financially costly and administratively time-consuming complex network of subsidiaries governed by different national laws. In particular, there will be advantages in terms of significant reductions in administrative and legal costs, a single legal structure and unified management and reporting systems*” [6].

### 4. Recent case of cross-border conversion

Nowadays, legal firms are focusing on such practices of companies and also on European Court of Justice (ECJ) decisions. In decision of VALE (Case C-378/10), issued on 12 July 2012, the ECJ had to rule on the possibility of so-called cross-border conversions. Story is about a limited liability company originally established under Italian law which decided to discontinue business in Italy and to transfer its seat and business to Hungary in order to operate there in

accordance with Hungarian law. The registration was rejected by both the court of first instance and the appeal court. The appeal court argued that under Hungarian law, a company that is not Hungarian cannot be listed as a predecessor in law. As others authors shown [7], “differences in treatment depending on whether a domestic or a cross-border conversion is at issue cannot be justified by the absence of rules laid down in secondary European Union law. The significance and outlook is that ECJ casts some light on an issue that a company must not be hindered from leaving a Member State when it intends to move to another Member State and will consequently be governed by the law of the host Member State”. About this theme, a lot of questions still remain unsolved, and the calls for European rules on cross-border conversions may be remain also justified.

##### **5. Romanian approach in mergers and cross-border conversion**

In Romania, the law reform in finance and economics fields was made by the Company Law and several Ministry of Finance Orders (no.1223/1998, abolished, no.1078/2003, abolished and no. 1376/2004, in force since last year). All of these provides legal and accounting rules for mergers, splits and winding up of companies. But these only refers to merger with winding up the absorbed company and consolidation with the winding up of the combining companies in order to form a new company. Consequently, the national laws lead to the use of mergers for reorganizing the equity, not for the external development of companies through mergers and acquisitions [8]. This is the difference between mergers with winding up of the acquiree, in Romania, and mergers with turning the acquiree into a subsidiary, in United States or EU. Losing the acquiree’s independence doesn’t mean its winding up but can mean only losing the right to take business decisions, which are taken at corporate level. Romanian company law has traditionally been reluctant to advancing the international mobility of companies within EU. After Munteanu [1] considerations, “in actual context of European integration, Romanian company law still remain reluctant instead embracing -

alongside countries such as Germany, France, Belgium, and Italy - the so-called *real seat doctrine*, which determines the applicable law by reference to the country in which the company has its real seat (centre of its administration)”. It’s important the underlining: “Corporate laws of the countries traditionally following the real seat theory, including Romania, did not have reincorporation provisions and even generally interpreted such decisions by shareholders as resolutions to liquidate”.

The Romanian courts have ruled on the topic of transfer of registered seat outside Romania. The country’s courts have upheld a member state's right to deny a company regulated by its national law the right to preserve its nationality if it intends to reorganize itself in a different member state. On the other hand, the transfer into Romania of the registered seat of a company organized and functioning under the rules of a different member state, with the corresponding preservation of the company's legal personality, has been unanimously settled by the courts to the effect of rejecting the registration with the Romanian commercial registers of the transfer of seat, in the absence of documents evidencing the winding-up of the respective company in the member state of origin. Attorney’s opinions are that following the ECJ's judgment in this case, a first indication of the approach taken under Romanian law was given by the Tribunal of Brasov. The registration of the general shareholders meeting resolution to transfer the registered seat of a Romanian company from Brasov into Gibraltar, was rejected. This transfer was thought without losing the company's legal capacity, due to insufficient proof evidencing the shareholders' will to effect a corporate transformation. The Tribunal has among other things also acknowledged that "*the transfer of the registered seat of a company from one member state into another member state, with a simultaneous change in the national legislation applicable to the respective company, is possible, even in the absence of a provision in the national law, if the laws of the host member state allow such a transformation, and without the member state of origin having the ability to impose the winding up of the respective company*".

## 6. Conclusions

European Integration is one of the most important achievements in recent social and economic history. In this context, companies have many legal flexible possibilities to extend the scope of their structuring possibilities. Most actual is cross-bordering into other member states for flexible legal framework and investment climate. Mergers seems to become unfashionable comparative with cross-border conversion driven by work-market reasons. This presents the disadvantage that the absorbed company is dissolved and the transfer of assets into a different member state may generally trigger real estate transfer tax. Relocation of companies' administrative seats in a different member state while the company continued to be governed by the law of the original country, is another possibility for corporate restructuring. Finally, conversion into entities named Societas Europaea, seems to be the best solution. Anyway, such cross-border operations give new tasks for legal European institutions. In this context, ECJ, a reliable institution is more and more appealed with cross-border legal issues.

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## Partnership Principle – A Theoretical Approach within Cohesion Policy

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### Abstract

*The article is presenting partnership principle in the context of cohesion policy (regional policy). The conceptualization of this principle is useful for increasing the performance of the programs using management strategies. The article follows a series of articles that explores the importance of partnership in projects within cohesion policy. Also the article is highlighting the feedback of interviewed from different countries regarding the importance of the partnership in the performance of their projects and some of the good practices presented in the European code of conduct on partnership applicable in the period 2014-2020. The theories and the lessons presented are also applicable to other aspects referring to management, development and regional planning.*

**Keywords:** Partnership Principle, Cohesion Policy, Multi-Level Governance, Theories

**JEL Codes:** F02; F15; F68; O22; P27

### 1. Introduction

The process of construction of the European Union in the landscape of Western European Countries and afterwards of extension in the Central and Eastern European Countries determined a specific model of institutions, tasks and responsibilities developed beginning with Brussels Treaty (1948) to the most recent Lisbon Treaty (2007).

In this complex context Warner (2000) presented four configurations representation of the Community Governance: the Multi-Level Governance (MLG), open coordination and benchmarking, the European regulatory model and an intensive trans-governmentalism.

In the White Paper adopted by European Union in 2001 the MLG was mentioned by the European Commission and the framework of this principle was completed in 2009 with the adoption of the White Paper on MLG.

### 2. Historical context of using the partnership principle

The MLG configuration was used in analysing the relationship between partnership at programme level and partnership at project level. From the factors that influence this relationship, the long-term relation, the mutual benefits of the relation, the acceptance of all terms of relation, the balance in the necessity of the relation, the common goals in the relation and the synergistic effect represent in some of the studies the added value from partnership.

The European regulatory model became important when the intergovernmentalism and supranationalism theories were stressing the system, but the prevalence of the national institution decision determined a new change in the model and so the principles of benchmarking and open coordination were using the idea of horizontal partnership. The MLG principle supposes to have organizational partnerships between different levels of government [1].

For the period 2014-2020 the partnership principle will be used in investing the budget allocated by European Union of approximately a trillion Euros in sustainable growth, new jobs and competitiveness, solidarity and cohesion, for an important role of European Union in world [2].

The concept of cohesion policy appeared with definition in 1997 in the first report of the Commission on Economic and Social Cohesion, as „greater equality in economic and social opportunities”, „solidarity and mutual support”; but the partnership concept is also relatively young because in 1988 was

introduced the system of MLG together with the principal of solidarity and partnership. The Central and Eastern European Countries adopted the principle latter on when in the period of transition to an open economy these countries operated with it [3].

The original interest in partnership principle is attributed to the urban growth coalitions in United States of America when the local and regional business representatives were working in involving private and public capital to ensure the additional prosperity in that times associated with the expansion of the cities. [4]

It is important to underline also the importance for the European society to understand and correctly use the concept of partnership and cohesion policy in the strategic management activities. In United Kingdom when especially the local authorities were weak (1980) some initiatives of promoting urban and rural regeneration were supported also through central government regeneration programmes with Structural Funds using the partnership principle concept [5].

In implementing the MLG principle the organization need to fully understand the implication of the partnership concept and to use it in accordance with the laws and institution of each country where the partners are organised. The complexity of such partnerships can be considered a challenge in a strategic management.

The peak point as importance of using the MLG configuration is during the implementation phase and an example of this maximum appliance is in the cohesion policy. The partnership principle is completing the MLG configuration because is participating to the linkage of the regional and local channels through institutionalization. [6]

It is necessary to underline that the analysis of the partnership principle in the European Union context refers to the European Union compliance at the established rules and to the integration of the principle in the domestic approach to regional development policy. Also the compliance is easier to achieve in the countries with tradition in cooperation and social partnership such Ireland [7] and Scotland. [8]

But, countries with weak organizations of the local governance and social partners are depending of the central governance for implementing the local projects, in such cases the European Union regulation can increase the openness to the policy making of the regional actors and to collaborative approach. [9]

The MLG concept has been questioned if it is sufficiently equipped to respond to the implication of a question such „who control the implementation of EU cohesion policy?” So the theory of the principal agent was considered to apply to the cohesion policy [10]. The interpretation of this theory has been an extension of the intergovernmentalist theory because the states are creating institutions in order to have mediatory, regulatory levers and to use it for member’s maximization of the benefits in European Union. In this theories the MLG is considered limited, it cannot explain why the European Union institution cannot prevent the influence of national and subnational actors in the implementation phase to the extent of impacting the policy structure as the partnership principle is requiring. It is considered that the agents laws is impacting the implementation of the projects more than the European Union laws foundation even if the repeated reforms of the cohesion policy from 1988 were made for strengthen these regulations. On the other hand the rules made by the European Commission and the indicators established by it in analysing the effectiveness of the cohesion policy are considered arguments against the both theories (MLG and principal agent theory). The MLG is antagonist to the state centric theory and is merging or rejecting the intergovernmentalism and the neo-functionalism. The subnational actors tend to get more importance in the MLG configuration.

Marks and Hooghe (2001) considered the idea that cohesion policy was especially configured for MLG to be more used in the economic policy in the European Union, but this can be reached only if the policy is used in the poorest regions from European Union. However this idea was not supported but the principle is appropriate. Also according to same authors the principle of partnership „incited” on argues between different national levels and the European

Commission and was acting as mediator and challenger during these periods.

The partnership principle is also favouring the cooperation and democracy and the opportunities of citizens to participate to governance, favouring the strength and multilevel democracy. [11]

MLG is used to close some capacity gaps in policy making such [12]:

1) Information gap: different levels do not have the same quantity or quality of information when designing, implementing and delivering public policy;

2) Capacity gap: there is a lack of human, knowledge (skill-based and ‘know-how’) or infrastructural resources available to carry out tasks, regardless of the level of government;

3) Fiscal/ funding gap: when revenues are not sufficient to finance the required expenditures, indicating a direct dependence on ‘higher’ levels of government;

4) Administrative gap: administrative borders do not correspond to functional, economic and social areas, leading to a fragmentation of public policies; and

5) Policy gap: occurs when line ministries take purely vertical approaches to cross-sectorial policies that require co-design or joint implementation at the local level. This leads to a lack of inter-sectorial coordination, often seen in such areas as energy and regional development.

These factors contributed to the importance of partnership principle in the cohesion policy, together with all the details presented, and determined the interest in regulating the principle for the new period of using ESI Funds 2014-2020.

### 3. Research Methodology

The study focused on exploring the cohesion policy and the point of intersection with the principle of partnership. We wanted to answer questions, such as: Is applicable the principle of partnership in the cohesion policy? If yes, what theories were developed regarding this relation? What rules were adopted by European Union in order to regulate this principle?

The analysis was conducted through the review of the data and documentation published by the European Union and the theories developed referring these topics and

the correlations between the components of the relation. The correlation between the cohesion policy and the determinants of this policy were presented using graphics.

### 4. European Union regulations regarding the partnership principle

In order to increase the role of the cohesion policy in the European Union member states considered necessary to increase the ownership vertically and horizontally in all stages of the operational programmes.[13]

In this way the Partnership Agreements and the Common Strategic Framework becomes the base of the 2014-2020 period of programming. A powerful change in the regulation was established through the article 5 of EU Regulation no. 1303/2013 by which the partnership principle was considered compulsory during the implementation of the operational programmes.

But the decisive step towards partnership principle in European Union was made through the European Code of Conduct on Partnership which presented in 2014 the main conditions that must be followed:

- Partners selected should be representative of the relevant stakeholders;
- Selection procedures should be transparent and take into account the different institutional and legal frameworks of the Member States;
- Partners should be involved in the preparation and implementation of the Partnership Agreement and programmes; for this purpose, it is necessary to establish minimum procedural requirements in order to ensure timely, meaningful and transparent consultation (i.e. sufficient time for consultation, availability of documents, etc.);
- Partners should be represented within the monitoring committees of programmes, throughout the whole cycle (i.e. preparation, implementation, monitoring and evaluation);
- Effective implementation of a partnership should be ensured by strengthening the institutional capacity of relevant partners through capacity building activities targeting social partners and organisations representing civil society who are involved in the programmes;



- Exchange of experience and mutual learning should be facilitated, in particular through the establishment of a Community of Practice on Partnership covering all the ESI Funds;

- The role of the partners in the implementation of the Partnership Agreement, as well as the performance and effectiveness of the partnership during the programming period should be subject to assessment.

Another step towards the partnership will be made using the good practice examples presented by the European Community of Practice on Partnership that is designed to facilitate exchange of experience, capacity building, as well as dissemination of relevant outcomes according to the article 18 of the same Code of Conduct. In this Community the management authorities and partners from European Union and from all types of programmes of financing are invited to participate.

The first comments regarding the good practice of the application of the partnership principle at country level and in the implementation of the ESI Funds are presented in the third part of the Code of Conduct. The presented pillars on which the principle is applied at the European Union level are taking into consideration:

- Procedures used to identify transparently the partners;
- Presentation of the relevant contribution of the partners in all the stages of implementation, the added value of the partnership;
  - The used rules in the monitoring area and the structure of the partners
  - The dissemination of the good practice by the Commission.

Because of the importance of the good practice in this moment some of the analysis are considering this topic relevant for increasing the application of this principle and to influence the absorption rate of each country for the new absorption period 2014-2020.[13]

In the past, the governance of cohesion policy was considered a particularly complex system, so any MLG requirement must

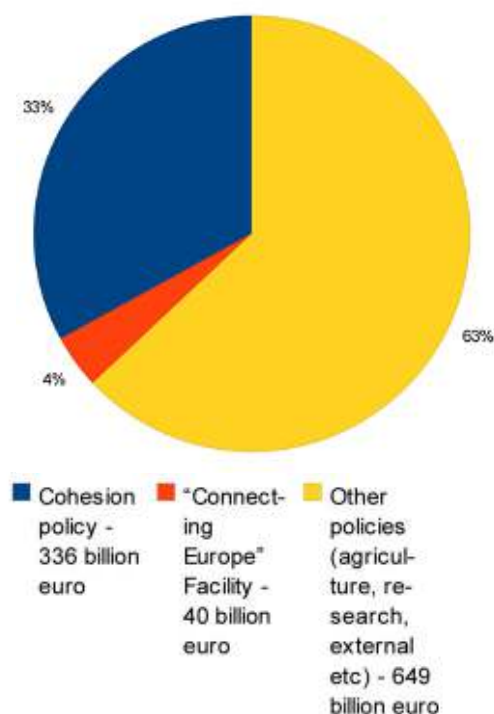
deliver more tangible results, synergies and simplification of processes.

## 5. Conclusions

The new policy considered in European Union is the employment policy as a modest policy against the extensive and long term recommendations. Also this policy is not splitting between north-south countries or west-eastern countries. [6]

This was almost proven during the reform in 2006 when the employment policy captured more attention but the limit of this importance was the incorporation of it in the cohesion policy.

Figure 1: The EU budget allocation by policy for 2014-2020 period



Source: The budget of the Cohesion policy 2014-2020 (2015) retrieved from <http://www.fonduri-structurale.ro/detaliu.aspx?eID=10117&t=fs2014-2020>

The achievement of the cohesion policy can be represented by the participation of the national and subnational agents to the development of their regions but the

disparities between the regions are affecting this participation.

The single market and unique currencies are supported by the cohesion policy, so such an effort is headed also to diminish the disparities.

Figure 2: The dependencies in the cohesion policy



Source: Author processing

The elements of the employment policy, incorporated into the cohesion policy can become elements of the MLG using the implementation of the essential principles of the cohesion policy. The partnership principle can suffer when the legal obligations are not contained in the European Union law for all the levels of partners and

can lead to the inefficiency of the cohesion policy even if some regions are registering important economic growth.

The partnership principle is assuring along with the enlargement, concentration, additionality and solidarity the strength of the European Union and the tools against the disparities.

One conclusion of the relevant literature on partnership principle is that associations are gaining the right of directly participate in the process of writing and implementing the agreement of each member state with the European Union. This role must be assumed by all the collectivity from which those associations are born because the cities can only be consulted through their organized associations.

It is important to underline other leverage that can be used in Europe 2020 governance policy the Territorial Pacts represented by political commitments or voluntary contracts. These kinds of pacts are considered important if it will bring added value in implementing Operational Programmes and not administrative burden for the implementation of the Strategy Europe 2020. This is important aspect because Europe 2020 governance policy can create synergies with the cohesion policy. [13]

In this analysis it was necessary to consider the fact that the compliance with the MLG can be evaluated ex-post and can be explained through the partnership principle between the governance levels. So the member states, management authorities and other social partners can provide feedback whatever the MLG functioned for absorption of ESI Funds. The evaluation criteria need to be established in the agreements between the partners.

According to surveys in different member states the using of MLG seems to be connected with the participatory democracy principles. So in order to have a solid application of the partnership principle it is necessary to apply it in a democratic environment.

In order to quantify the real appliance of these theories it is proposed to use indicators especially when member states are

implementing policy with regional dimensions in European Union. [13]

One of the practical quantification of the effectiveness of using this principle in Poland was considered the percentage of more than 50% of partnership continued after the ending of the projects this fact underlining the trust between the parts engaged into the projects funded by ESI Funds in the first place. This actions are influenced by the financial and administrative capacity and the attitude of the partners, sometime one of the parts can consider that being in a partnership will not financial favour it (other partner will have access to other grants and it will deprive him of that funds). So the application of the principle remains statistically different from country to country, from region to other and from different period of time. [9]

The MLG and partnership principle is conducting towards an European cooperation between institutions for inclusive governance and monitoring of the steps made towards the implementing of the Europe 2020 strategy [13]

Further analysis on the innovative MLG applied in the member states can be used in order to have an image of the application of these theories.

The partnership principle and the MLG configuration are considered important tools for sustaining Europe 2020 strategy to have tangible effects and to really be incorporate in all strategies applied at all governance levels. [13]

The partnership principle topic is presenting interest in the implementations of ESI Funds because it's role in absorption rate of the partnership agreements.

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# The ERDF Contribution to the Development of the Social and Educational Infrastructure, as well as to the Reduction of Local Disparities in Cluj, Brasov, Vaslui and Giurgiu Counties in the Period 2007-2013

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## Abstract

*The long term objective of the regional development policy at European level is to reduce regional disparities. Aiming to bring its own contribution, Romania differentially allocated amounts from ERDF and from the State budget for the less developed regions. This however was not reflected in the counties, the local authorities having a low financial and technical capacity, which was decisive in accessing funds, the counties with higher total or own income being those that have managed to attract more funds.*

*The paper presents the situation of the utilisation of ERDF and of the national funds related to 4 counties, 2 of the most developed, Cluj and Brasov and 2 of the least developed, Vaslui and Giurgiu, in order to improve the educational and social infrastructure.*

**Key words:** ERDF, social and education infrastructure, disparities, regional planning

**JEL Classification:** H760, R120

## 1.Introduction

Diminishing the development disparities between the regions of the country was one of the priorities of the National Development Plan (NDP) 2007-2013 ever since the time of the adoption of the Plan, in December 2005 appreciating that the chronic underdevelopment is concentrated in the North East Region, on the border with Moldova and the South Region, along the Danube. The situation was worsened by another key-problem identified in the socio-

economic analysis of the NDP, respectively the insufficient experience in the management of regional / local development programs. The status of the social and educational infrastructure was poor, especially in the rural area and of a poor quality which could not sustain the provision of adequate quality services. Identifying solutions should have been achieved in the context in which, for applying the principle of subsidiarity and performing the administrative decentralization, the local authorities and regional bodies were given increasingly more tasks and responsibilities in the development and implementation of the regional / local development strategies. Thus, given the early stage of this process, it is considered necessary to develop all the levels of governance in terms of capacity planning, programming and management of programs and projects of economic and social development. [1]

## 2. ERDF contribution to the reduction of the regional disparities

The manner in which both national and local authorities have understood to exercise not only their functional powers but also their development powers is reflected in the use of funds allocated to Romania for the achievement of the regional development objectives.

### 2.1 Previous contribution to the subject

Considered one of the main policies at EU level, the regional development policy has evolved to the extent in which the relationship national-State -regions has

evolved, the strengthening of the multi-level governance system being essential for a real functioning of the regional development policy and the creation of a real effect of this policy. [2] Although it is invoked the significant contribution of the structural and cohesion funds at regional level, the analyses show the opposite, namely that the poor countries have recovered the development differences faster than the poor regions. [3] Although there are opinions that state that in recent years there was a "regionalization" of the regional policy [4], in Romania the way in which the management and control system deficiencies of the structural and cohesion funds have affected the possibilities of accessing funds or implementing projects derives from external causes of the local authorities, we can still talk about an indirect regional policy. [5] Hence if at the EU level it was considered that one can observe a process of economic convergence and in Romania there were noticed increases of disparities according to different analyses. [6],[7] Moreover, the continuing gap of development between counties in Romania [8] was announced in the works of several Romanian researchers, by signalling the ineffectiveness of the measures adopted, given that the differences at level NUTS 3, respectively the counties, are growing. [9] However, the importance of education and social services is recognized, along with the field of health [10] thus justifying both the establishing of the major areas of intervention under Priority Axis 3 of the Regional Operational Programme 2007-2013. This may ensure the contribution to the development of human capital in the European Union, the positive effects generated by these fields are highlighted also for the previous programming periods. [11]

## **2.2. ERDF contribution to the improvement of regional educational and social infrastructure**

The programme financed from Structural Fund (European Regional Development Fund ERDF) which will address the regional development differences within Romania for the 2007-2013 programming period is the Regional Operational Programme (ROP) 2007-2013, with ERDF allocation of 3,726,021,762 Euro. Aiming at supporting

the economic, social, sustainable and balanced territorial development of all the Romanian regions, according to the specific needs and resources, ROP 2007-2013 benefited from a substantial allocation of funds, which was later distributed differentially for each development region, principle also applied for each key area of intervention, depending on the degree of their development. Thus, the financial allocation for the ROP 2007 - 2013 is of 4,568,341,147 Euro, out of which 3,726,021,762 Euro from the European Regional Development Fund (ERDF), the rest representing national public funds and private funds.

Continuing addressing the set priorities at the level of NDP 2007-2013 and National Strategic Reference Framework 2007-2013, the Priority Axis (AP) 3 - Improvement of social infrastructure, the one which we refer to in this paper, are aimed at creating the prerequisites for providing the population with essential services, contributing thus to meeting the European objective of economic and social cohesion by improving the infrastructure of health, education, social and for public safety in emergency situations. The key areas of intervention (KAI) under this priority axis that we considered relevant in our analysis are: rehabilitation/modernization/development and equipping of social services and rehabilitation/modernization/development and equipping of pre-university, university educational infrastructure and continuous vocational training infrastructure. There were not included in the analysis KAI 3.1 that monitored the rehabilitation / modernization / equipping of health services, the health care domain being in a process of reform that has led to the closure of several hospitals which was not analyzed because it was deeply affected by the national approach, as well as KAI 3.3 on Improving the equipment of operational units for emergency interventions that was intended for interventions at regional level, our analysis aiming at the county level.

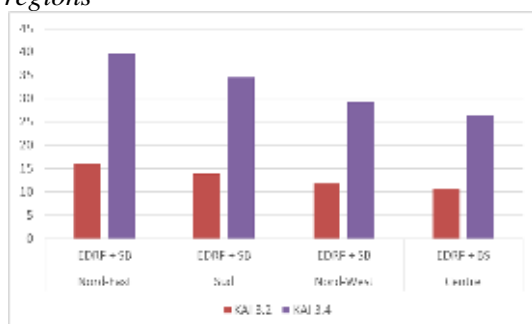
The indicative financial allocation for Axis 3 "Improvement of social infrastructure" is of 657, 53 million Euro, out of which 558, 90 million from ERDF and the rest being national co-financing. Then there where funds (EUR 150 million co-financing from the ERDF) reallocated to ROP 2007-

2013 according to the Commission Decision C (2013) / 9772 final of 12/19/2013 which supplemented the final allocation of DI 3.4, the call launched in 2014.

### 3. Regional perspectives and realities on ERDF projects on education and social infrastructure

Cluj, Brasov, Vaslui and Giurgiu counties are part of the region North-West, Central, North-East or South-Muntenia and these are the counties that in 2007 had the highest or lowest development. The financial allocation for KAI 3.2 and 3.4 (Figure 1) was higher for the less developed regions (North-East and South-Muntenia) and lower for the most developed (North-West and Centre), thus attempting the reduction of regional disparities.

Figure 1: Comparative situation of the ROP 2007-2013 allocation (ERDF and State Budget) on KAI 3.2 and 3.4 for the four regions



Source: ROP 2007-2013, Application Guidelines - data processed by the authors

#### 3.1 Needs and solutions identified at regional and local level

At regional and local level in the planning documents under the form of regional development plans (RDP) or of the development strategies of the counties, adopted for the period 2007-2013 there have been identified and presented both the problems and the proposals for solutions coagulated as development directions in whose implementing a key role was played by the EU funds, mainly the European Regional Development Fund. If in the North-East region the identified problems, namely the lower value of the regional GDP/capita among all regions, the highest poverty rate of

all regions or the highest rate of infant mortality of all regions offered the size of the seriousness of the situation the RDP North - East 2007-2013, approved by the council of the Regional Development on the 7th of March 2006, needs to address, in the North West region the development level is diametrically opposed, the region occupies the 5th place in the national hierarchy in terms of the region's contribution to the formation of the GDP, Cluj county having the largest contribution to the regional GDP. However, at the level of this region as well there are highlighted the constraints made by the poor quality of the educational infrastructure, especially in rural areas [12] In the Centre region, the third nationwide as GDP contribution, benefits from the existing basic social and educational infrastructure in cities, a good network of vocational training and strong university centres (Brasov, Targu Mures, Sibiu, Alba Iulia) but also a number of specific issues, such as: the educational and health infrastructure is lacking in some isolated mountain villages; the lack of facilities in the education and health systems, mainly in rural areas; limited access to educational and health infrastructure in some isolated areas [13] The low level of development of the social infrastructure, public services and utilities and education and living conditions in the general context of low GDP / capita at regional level are only part of the problems mentioned at the level of the South-Muntenia region. [14]

Regarding the regional development directions, the objectives or measures proposed, be it the most developed regions Centre or North-West or the less developed ones, North East and South-Muntenia, we find the development and modernization of the educational, social and health infrastructure [15], or the development and rehabilitation of educational infrastructure, and improving the health and development of the health infrastructure and social services [16], the rehabilitation and development of the educational, health and social infrastructure [17], or the development and modernization of public utilities, social services and infrastructure including waste management, and improvement of the access of rural communities to education, training, employment and counselling. [18] We note however the fact that the administrative

capacity increase is targeted in the RDP North-West and North-East, the proposed measures relate to strengthening the administrative capacity for the elaboration of public policies, or support the economic growth and promote the good governance through capacity building of public administrations [19] in the first case and conducting training for individuals responsible for identifying the external sources of financing and managing them effectively by implementing projects. [20] However, there are not provided support modalities for the ATUs in their process of preparation and accessing the available funds, considering that the main problem is lack of a clear budget at the level of the public administrations that would include the co-financing of their proposed projects. [21]

At the level of Brasov County it was found with respect to the field of education that the material basis is outdated, especially in rural areas and that there is a problem about the uncertain legal status of the locations in which some education units function and many losses of space as a result of restitutions. In terms of social infrastructure the main deficiency is the lack of access infrastructure for people with disabilities. [22]

For Giurgiu County, as it results from the Development Strategy for the period 2008-2013, from the social point of view it was considered that there is an inequitable distribution of health facilities and medical personnel in rural areas. Also, the analysis performed in Giurgiu County as is included in the Strategy revealed the existence of some differences between the educational infrastructures in rural areas compared to the one in urban areas. It is important that the administration capacity of Giurgiu county municipalities was also analysed appreciating that there is an inability of the local administrations to access structural funds.

The existence of a large number of school units that require major repairs and consolidation, especially in rural areas, the need for major investments in equipment for school medical offices, laboratories, school workshops; as well as the need to improve children's access to the educational infrastructure in rural areas were identified in Vaslui County. [23] The development of the educational and social infrastructure is

reflected in all the development strategies of the counties.

Thus, within the Cluj County Development Strategy for 2007-2013, approved in September 2005 and updated in 2009, it was established the specific objective: improving the social, health and education infrastructure, at local and county level. Also, in the strategy of Brasov County there was set the direction for development 6. Improve the quality of the human social capital. [24]

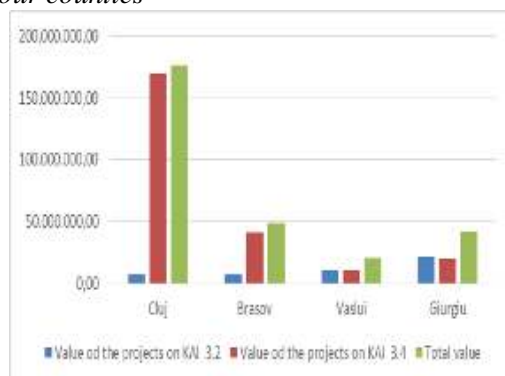
For Giurgiu County there were established Priority 1: Development of infrastructure including reducing disparities in terms of educational infrastructure, as well as Priority 3: Reducing disparities and promoting social inclusion with the areas of intervention. [25]

Also, Vaslui County provided the measure 1.4. Development of the educational, social and health infrastructure under Priority axis 1: Infrastructure and Environment. [26]

### **3.2 The completed projects and the limits of the administrative capacity**

The applications for funding projects in these areas were launched in early 2008 (RAI 2008, p. 61, p.65) and from the beginning the value of the submitted projects exceeded the allocation for each area, being of 125% for KAI 3.2 and respectively of 355% for KAI 3.4. At the level of the 4 counties examined there were submitted several projects, namely for KAI 3.2 Cluj submitted 2, Brasov 2, Vaslui 4 and Giurgiu 6 and for KAI 3.4 there were submitted 12 projects at the level of Cluj County, Brasov 6, Vaslui 3 and Giurgiu 6 projects. The total amounts requested in each county shows that the total values obtained are greater for Cluj and Brasov compared to Vaslui and Giurgiu.

Figure 2: Total values obtained for the four counties



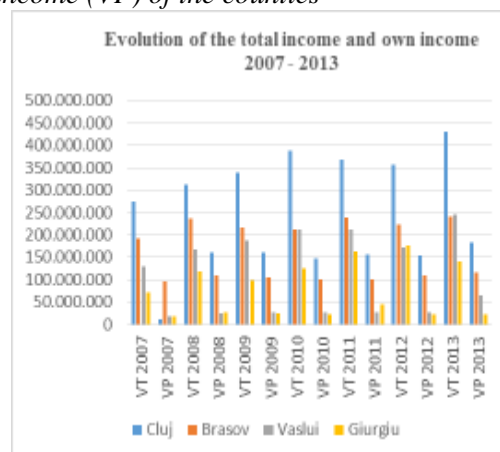
Source:

<http://administratie.gisportal.ro/mdrap/> - data processed by the authors

The annual implementation reports drafted along the time by the Managing Authority for ROP 2007-2013 (AM POR) have presented the problems encountered, these being the lack of accreditation certificates for the newly developed social services in the newly established centres or the ownership of the higher educational institutions [27] or the risk that the inclusion or demolition plans of certain educational units developed by the Ministry of Education includes a series of units under evaluation or for which AMPOR signed financing contracts [28], which is what has happened. [29]

The high level of the total value of the projects obtained by beneficiaries located in Cluj County could be explained by financial capacity of local authorities to support the projects and administrative capacity to elaborate and implement the projects. If in 2009, the main problems faced by the beneficiaries, refer to the human resources at local level, respectively the insufficient personnel at the level of the local public authorities, poorly financially motivated and the fluctuation of the trained staff in the management of public funds [30] in 2012 it was found that the lack of financial flows, at the level of the beneficiaries, necessary to effectively implement the projects financed from EU funds, causes delays in the implementation of the projects. [31]

Figure 3: Total income (VT) and own income (VP) of the counties



Source: <http://uat.mdrap.ro/> data processed by the authors

Given the large differences in budgets existing at local level during the 2007-2013 programming period, there is, naturally, a difference in providing the financial contribution needed, especially given the reimbursement system applied.

The introduction of the mechanism of the payment requests made much easier the task of the local authorities. Although at the level of the analysed counties deficiencies were reported to the local authorities and it was proposed to develop their administrative capacity, however the level of the total income or own income was almost constant in favour of the more developed counties.

The high level of the own income could explain the higher capacity to develop new applications in order to get EU funds. Related to the total income (VP) a data analyzes shows that there are significant differences among counties ( $F_{stat}=44.823$ ;  $p<0.01$ ).

Table 1: Total income comparative analysis for the four counties

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1.89E+17	3	6.28E+16	44.823	5.442E-10	3.0088
Within Groups	3.36E+16	24	1.40E+15			
Total	2.22E+17	27				

Source: <http://uat.mdrap.ro/> data processed by the authors

Also there is no significant differences between Brasov and Vaslui counties on total income average ( $t_{stat}= 2.077$ ,  $p=0.06$ ) as is proved by a comparative analysis. The



conclusions of the own income (VP) are: there are significant differences among counties ( $F_{stat}=24.126$ ;  $p<0.01$ ).

*Tabel 2: Own income comparative analysis for the four counties*

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	6.54E+16	3	6.28E+16	2.41E+01	2.01E-7	3.01E+00
Within Groups	2.17E+16	24	9.04E+14			
Total	2.22E+17	27				

Source: <http://uat.mdrap.ro/> data processed by the authors

Thus, the measure of the differentiated allocation at the level of the development regions in favour of the more disadvantaged ones was not accompanied by a real support, consistent for the less developed counties and the effects on the capacity to access European funds were at the level of the limited financial possibilities. In both cases: total incomes ( $F_{stat}=0.4169$ ,  $p>0.05$ ) and own incomes ( $F_{stat}=0.375$ ,  $p>0.05$ ) there are not significant differences between the annual values.

#### 4. Conclusions

Although the national authorities found that the ERDF allocation and the contributions related to the State budget for regions according to their level of development will be sufficient to reduce regional disparities, it is clear that ignoring both the performed analyses of several researchers and the problems identified locally as they appear in the planning documents led to opposite results.

At the level of the counties, NUTS 3 equivalent, it is recorded a large amount of the funds attracted for improving the educational and social infrastructure in the most developed counties. In this context it is clear that the process of making the operational and planning documents at the national level was not of the type bottom-up and was not based on the reflection of the actual needs. Moreover, the entire system of national public management has demonstrated the limits of managing this situation in which the risks identified early on were not managed, primarily affecting the local level.

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## Concentration in the Banking Sector in Romania and Bulgaria

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### Abstract

*In this paper, we analyze the evolution of global mergers and acquisitions in the banking sector during 1985-2014, given that a large number of banks all over the world have engaged in concentration activities. We focused in this section on the characteristics of the banking sector in Bulgaria and Romania. In parallel, we explain the reasons underlying these concentrations. In the second part of the paper, we present the essential steps in the european merger control enforcement: defining the relevant market, analyzing the market structure and assessing any harm to competition. In the analysis of market structure, we compare the degree of concentration in the banking sector in Bulgaria and Romania. In conclusion, we emphasize the importance of concentrations control for financial sector stability.*

**Keywords:** banking mergers and acquisitions, competition policy

**JEL Classification:** G21, L11

### 1. Introduction

The process of restructuring in the financial services sector has been gathering pace since the early 1990`s. Within the European Union, this process started in North and is continuing to spread southwards. It is a trend, which started in banking and is now increasingly engulfing the insurance sector. Initially, purely national restructuring was often followed by restructuring involving companies and employees from different EU countries and beyond. A large number of international and domestic banks all over the world are engaged in merger and acquisition activities. One of the principal objectives behind the mergers and acquisitions in the

banking sector is to reap the benefits of economies of scale.

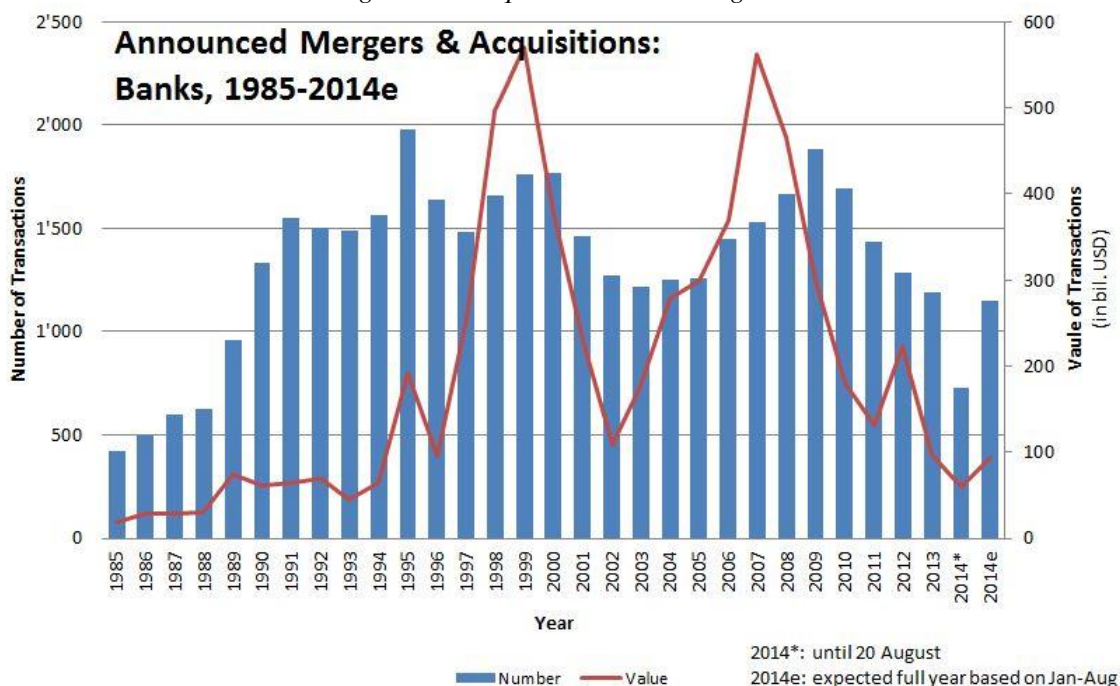
Deregulation in the financial market, market liberalization, economic reforms and a number of other factors have played an important function behind the growth of mergers and acquisitions in the banking sector.

### 2. Evolution of global mergers and acquisitions in banking sector

As we see from the chart 1, number of mergers and acquisitions globally peaked in 1995, approximately 2300 operations, the growth trend continue since the 90`s. Despite the global financial crisis in 2007-2009 the trend was increasing, with a slight decrease from 2011 until present [1].

The sovereign debt crisis in Europe has caused many banks in this region to reduce their staff size to cut costs and to sell assets to meet tougher capital rules under Basel III standards. The problems are driving restructuring and consolidation in the home market. In this sens, the Rabobank Groep is shedding units to strengthen its finances amid slowing asset growth and competition for deposits in the Netherlands. In February 2013, it agreed to sell a controlling stake in its asset-management unit for \$2.59 billion. [2]. The banking industry from emerging European countries is still fragmented, which can drive consolidation in these regions. The innovative and fastgrowing retail banks in the region require capital to support their growth. As a result of these drivers, the European banking industry is witnessing increased consolidation activities. In addition to consolidation among regional banks, a number of large Chinese banks are also expanding into the European market. [3]

Chart 1: Mergers and Acquisitions in banking sector 1985-2014



Source: Institute of Mergers, Acquisitions and Alliances (IMAA), 2014

A number of catalysts could determine a steady pickup in M&A deal volume during 2014: Larger banks are looking to retool their product mix and geographic footprint, regional/mid-sized banks are seeking asset growth, small banks are looking for scale and a rising interest rate environment makes deals more palatable across market segments.

A lack of substantive targets and a longer regulatory approval process could slow M&A's momentum, especially for large banks.

### 3. Merger control enforcement in European Competition Policy

The Treaty of Rome made no explicit provision for merger control. It was only in December 1989 that the EC Merger Regulation (ECMR) brought explicit merger control at the European level. The primary legislation governing mergers is Council Regulation 139/2004 (the “Merger Regulation”) which came into force on 1 May 2004 (replacing ECMR).

Regarding the merger control enforcement, there are some essential steps: defining the relevant market, analyzing the market structure and assessing any harm to competition.

In the case of mergers, the definition of the relevant market is the first step in the analysis of a concentration operation, aiming at to determine whether the transaction will create or strengthen a dominant position in the market. The relevant market is the market on which the competition acts, the concept being used for the identification of the products and of the undertakings that compete directly. The European Commission Notice on the definition of the relevant market refers to three competitive constraints which can act on the undertakings: demand substitutability, supply substitutability and potential competition. The concept of substitutability is the key of the relevant market definition.

Normally, the European Commission uses current market shares in its competitive analysis. Commission often applies the Herfindahl-Hirschman Index (HHI) [2].

The last steps in the merger control enforcement is assessing any harm to competition. European Commission changed the substantive test for intervention in 2004 by introducing the so called significant impediment to effective competition (“SIEC”) test, aiming to emphasise an already ongoing move towards an “effects-based approach” in merger control. This means that the merger policy put greater

emphasis on "economics" and rely less on structural factors such as concentration levels and market shares.

EU merger control enforcement has evolved gradually and in a consistent and stable way. The assessment has been made on the basis of sound economics using solid tools for investigation. [3]

#### **4. Brief overview of the merger legislation and banking sector in Bulgaria and Romania**

The accession of Romania and Bulgaria to the European Union implies the entering in “the single” European market and the existence of the single banking license. In this context, foreign banks can enter more easily the territory of a member country, which can determine the expansion of competition in the local banking activity. The methods to enter the banking market can be diverse: open branches or subsidiaries; equity investment in the local banks; mergers or acquisitions of local banks.

The Law on Protection of Competition (LPC) is the main law in Bulgaria containing provisions on the control of concentrations, entrusting the Commission on Protection of Competition (CPC) with the power to make an assessment of planned concentrations of economic activities and to decide on their authorisation. Taking into account the free regime in Bulgaria for the banking activities of EU credit and financial institutions, licensed in EU Member State, the CPC expects that the consolidation and concentration processes in the banking system in Bulgarian market will further continue [4].

The main provisions on the methods used by the CPC to determine the market share of undertakings are part of the Methodology on Investigation and Definition of the Market Position of Undertakings in the Relevant Market. The Methodology is adopted with decision No 393/2009 of the Commission and it reflects the amendments, introduced in the law. This new Methodology makes differentiation when setting how the market shares are to be calculated by the CPC, depending on the markets, in which the undertakings operate - markets of the real economy or financial sector markets, with further delineation for specific financial

markets (banks and credit institutions, leasing companies, insurance companies, pension and health insurance companies, investment companies). This differentiation concerns the basis, on which the market share is calculated where markets in financial sector are analysed, as well as the calculation of the turnover of the undertakings, operating in these markets. The necessary data for the calculation by the CPC of the market shares of credit institutions is taken from the statistics of Bulgarian National Bank. The statistical data needed for the calculation of the turnover of the insurance companies, investment companies, etc. is taken from the Financial Supervision Commission. The Methodology provides for two main indexes to be used by the CPC to determine the level of concentration in the relevant market in merger proceedings – the Herfindahl index and the CR. The Methodology allows, however, using other indicators in addition to the CR and HHI, depending on the characteristics of the relevant market.

In the period 2006 –June 2008, the Commission on Protection of Competition made an assessment and authorised without conditions 7 concentrations in the banking sector: MKB Bank, Hungary, to acquire control over Unionbank Commercial Bank; Eurobank EFG Holding, Luxembourg, to acquire DZI bank; Piraeus Bank Bulgaria, to acquire the retail banking business of ING Bank H.B.-Sofia city branch; Piraeus Bank Bulgaria, to acquire control over the leasing company Dient Bulgaria; Setelem S.A., France, to acquire control over Jett Finance International, Sofia – consumer finance; KBC Bank H.B., Belgium to acquire sole control over Economic and Investment bank and Allied Irish Banks Public Limited Company (AIB), Ireland, to acquire control over Bulgarian-American Credit Bank.

After the accession of Romania to the EU and the liberalization of the service market, foreign institutions have expressed their intention to have direct banking activities on the Romanian territory. The Competition Council, as national competition authority, enforces and ensures the application of the national and Community rules on competition.

Next we summarize the main concentration in banking operations in Romania. Millennium Bank started its

activity on the Romanian market on October 11, 2007, by simultaneously opening 39 branches in Bucharest and in other eight cities of the country. Before 2007, there was some foreign entrances in the Romanian banking system after the privatizations of certain Romanian state banks, such as: Banca Română pentru Dezvoltare (BRDGSG) bought by Société Générale and Bancpost in 1999, bought by a consortium formed by General Electric Capital Corporation (35%) and Banco Portugues de Investimento (10%); Banca Agricolă bought in 2001 by Raiffeisen Bank and Banca Comercială Română whose privatization process last between 2003 and 2006, when Erste Bank took the biggest bank of Romania. Also OTP Hungary overtook RoBank in 2004, the first acquisition of a bank with private capital in Romania. [5]

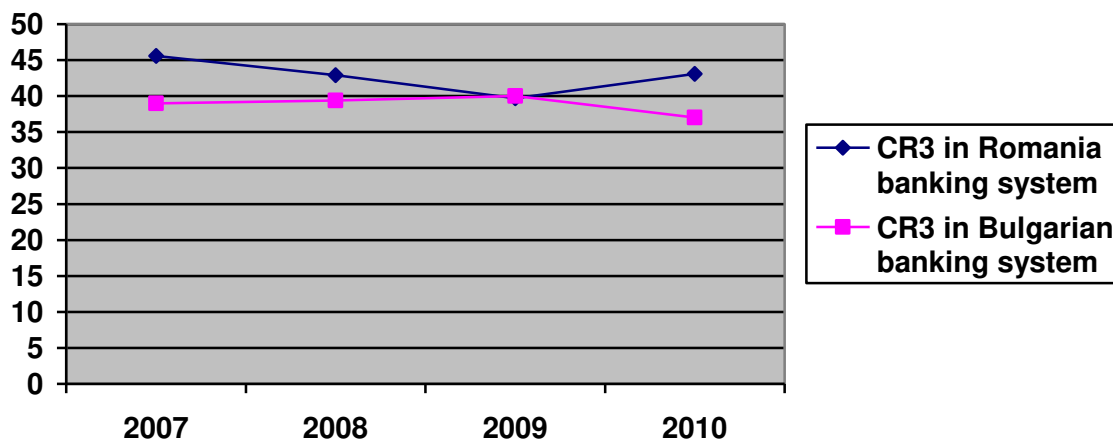
In 2010, in Bulgaria there were 30 banks and in Romania 32, which shows a resemblance between the two countries on the structure of the banking system.

Above review of literature gives us the empirical substance to one of the theoretical advantages which is claimed for concentration ratios as a measure of market structure. Since the importance of concentration ratios arises from their ability to capture structural features of a market, these are therefore often used in structural models explaining competitive performance in the banking industry as the result of market structure. Concentration ratios are also able to reflect changes in concentration as a result of the bank's entry into the market or its exit from it, or caused by a merger.

Concentration Ratio (CR3): Three-Bank concentration ratio equals to the sum of the assets, or deposits, of the largest three banks in a given market divided by the total assets of that market, as in equation:

$$CR3 = \frac{\text{The Largest Three Banks' Assets}}{\text{Market's Assets}}$$

Chart 2: Concentration Ratio (CR3) in Romanian and Bulgarian banking system



Source: author, upon dates from BSCEE

The Romanian and Bulgarian banking sector remain relatively concentrated. Top-three banks (in terms of assets) held in 2010: 43,1% of aggregate assets on the credit institutions' balance sheets in Romania and 37% in Bulgaria. As we see from the chart above, the banking system in Romania is slightly more concentrated than in Bulgaria. [6]

## 5. Conclusions

The competition in the Romanian banking system increases continuously in the last years. The main factors which have influenced this process were: the privatization of the majority of state capital banks and the perspective of accession of our country in the EU.

Consolidation in Bulgarian banking sector was moved by objective system features.

Harmonised with the *acquis communautaire* regime of carrying out business and supervision, as well as public finance stability, growth prospective and level of services attracted big European banks in a market, where physical presence (offices and branches) is crucial.

There is a positive correlation between bank performance and market concentration. From a social viewpoint, bank concentration creates an environment that can reduce social welfare. This is an issue that has important public policy implications. Since the market structure in Romanian and Bulgarian banking system is still relatively concentrated (due to the value still high of the indicator CR3 - Market share of the top three banks in total assets), public policy should focus on increasing competition such as discouraging mergers and acquisitions.

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# Causality-Based Frameworks for Sustainable Development Indicators: Strengths and Weaknesses

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## Abstract

*In order to systematize and organize the information needed to analyze sustainable development problems and also to select the most suggestive indicators, there were developed several model-frameworks, on which to overlay systems of statistical indicators for quantifying sustainability.*

*This article analyzes in a comparative manner four frameworks based on cause-effect relationships, reflecting their advantages and disadvantages: PSR, DSR, DPSIR and DPSEEA. The models are already used by international organizations with responsibilities in official statistics, as well as by numerous national statistical offices of European and Non-European countries.*

*The paper indicates the strengths and weaknesses of each framework, focusing on aspects that can be taken from each model-framework to be combined into a new hybrid model-framework, able to provide a quantitative characterization of sustainability aspects.*

**Key Words:** sustainable development, causality-based framework, driving force-pressure-state-impact-response indicators.

**J.E.L. Classification:** Q01, Q51, Q56, Q57.

## 1. An introduction to framework-models of sustainable development indicators.

### Literature Review

The necessity of coherent development of indicator-systems of sustainable development was focused on configuring framework models gradually improved in step with increasing emphasis on the concept of sustainable development. The concept of "sustainable development", born with the Brundtland Report (1987), was based on the

principle of ensuring a balance between the three main pillars: the economic pillar, the social pillar and the environment pillar, in a spatial and temporal coordinate. Indeed, this balance must be assured for both present and future (temporal component), as well as inside and outside the national borders of the states (spatial component) [1] [2]. After this time, international institutions with responsibilities in the development of official statistics (Organization of Economic Cooperation and Development-OECD, United Nations Organization - UNO, European Commission - EUROSTAT, the European Environment Agency and others), national statistical institutes of the world countries, many researchers and scientists have turned their research into the possibilities of quantification of sustainability by developing a system of statistical indicators.

These frameworks have been applied in designing systems of statistical indicators in many areas (engineering, economics, business, politics, etc.), each of them having advantages and disadvantages. Bushra Waheed, Faisal Khan and Brian Veitch (2009) classified the frameworks used in projection of indicator-systems of sustainable development into six categories: • objective-based; • impact-based; • influence-based; • process-based or stakeholder-based; • material flow accounting and lifecycle assessment; • causality-based frameworks [3].

Most frameworks were developed in the last 15-25 years, remaining in the experimental stage [3]. Others, however, have been the subject of numerous studies and have applications in multiple domains. For instance, linkages-based models based on causal relationships between phenomena and processes in the studied area, which are, also, the subject of this article.

The latter frameworks have in common that they all allow highlighting and



explaining the phenomena and processes of sustainable development, by identifying the cause-effect relationships, the connections between them. They differ, however, from each other, by the way in which they highlight the main dimensions of sustainable development, relationships, by the way in which they categorize and group the various subcomponents of sustainable development, by the emphasis they put on different components of cause-effect chain.

OECD has taken over an adapted version of PSR framework, and applied it in the study of environmental issues. In 1989/1990 the validity and efficiency of the PSR framework were reviewed by several OECD countries [4], and the framework was further used in structuring a system of environment statistical indicators, both “core-set” and “sectoral” indicators. In Carr et al. (2007) it is mentioned that this frame “tended to push aside natural variability, as there was no place for it in the PSR classification schemes”, because of the anthropocentric orientation of the model [5]. The United Nations Commission on Sustainable Development has replaced the term “Pressure” with “Driving Forces”, in order to widen, to extend the meaning of the concept. The PSR model has become the DSR model (*Driving Force - State - Response*). Bowen and Riley (2003) have shown that a disadvantage of the PSR and DSR models was that they did not explain well enough the determinants, the causes generating environmental pressures and neither the underlying reasons behind the company's response, as a reaction to the environmental changing conditions [6]. These problems were solved by creating a new framework for structuring a statistical indicators system of sustainable development: DPSIR (*Driving Force - Pressure - State - Impact - Response*), used by the European Environment Agency (1999) and EUROSTAT. Scheren et al. (2004) used this framework to investigate the environmental pollution in Ebri Lagoon in Cote D'Ivoire [7].

Rekolainen et al. (2003) [8] have launched some criticisms of DPSIR framework, referring to the fact that the model does not take into account the high dynamic developments in the studied systems. As such, the World Health Organization (WHO) amended DPSIR

framework model, developing a new model called DPSEEA (*Driving Force - Pressure - State - Exposure - Effect - Action*), covering a wider range of cause-effect relationships in health and environment domains [9].

## **2. Frameworks used in projecting indicators-systems of sustainable development**

The development of a system of indicators in sustainable development domain is achieved through its transposition to an appropriate framework, so that data can be better organized, systematized, and the most relevant information can be selected in order to quantify various sustainable development aspects. Thus, the indicators obtained better meet the established requirements and objectives, in order to fully satisfy the needs of decision makers, policy makers and the public. Framework facilitates highlighting and explaining the connections, the interactions between different sides of the sustainable development.

Researchers have developed over time more frameworks, based on different principles and have been used them to support the construction of various statistical indicators systems of sustainable development. Further, the author presents several important frameworks:

### **PSR framework (*Pressure-State-Response*)**

The model was developed in the 70s by a Canadian statistician, in order to quantify and analyze the interactions between the pressures on the environment, environment status and how society reacts to these pressures. This framework was adopted and used by the OECD Environment Directorate - State of the Environment Division, which later reassessed and revalidated the framework, and used it in developing statistical indicators system for environment.

The PSR is a matrix in which the indicators are organized into three categories: indicators that reflect environmental pressures (Pressure), indicators of environmental status (State) and the response indicators that quantify the reactions of society in order to restore the state of the environment and to bring it within normal limits (Response). On the other hand,

indicators capture the interactions between the three categories: human activities put a certain pressure on the environment, have certain influences - most of them negative - on the environment; these pressures cause changes in the state of environmental components; these changes affect people's lives and cause different responses, reactions that may fix the problems.

### DSR framework (Driving Force-State-Response)

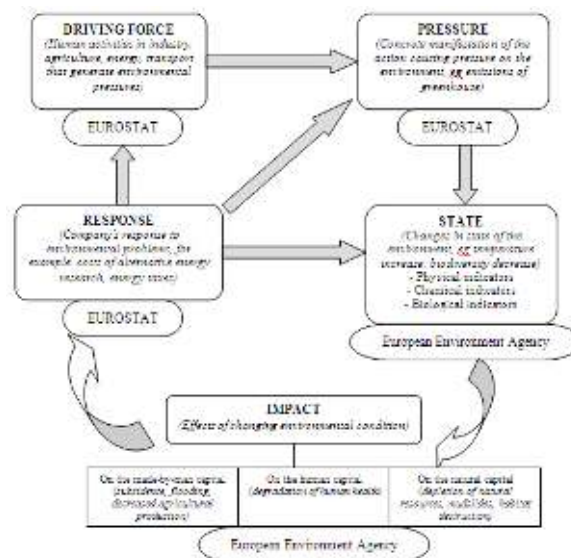
The DSR framework is a variant of the PSR model, which differs from it in that the term "Pressure" was replaced with "Driving Force" or "Drivers"; this substitution was meant to eliminate the negative connotation of the term "Pressure", as the term "Driving Force" may include human activities with positive effect, besides those with negative effect on the environment. The model is used by United Nations Commission for Sustainable Development, in developing its system of statistical indicators of sustainable development. It allows a better analysis of the links between Driving Force, State and Response, facilitating a clearer understanding of the causes of environmental pressures.

### DPSIR (Driving Force-Pressure-State-Impact-Response)

The DPSIR scheme provides a more detailed analysis and adjustment of sustainable development issues, a clearer relationship between the environment and the human factor; it is used by EUROSTAT for developing its system of statistical indicators of sustainable development. Indicators structured by this framework give information on: causes (human actions) that influence the environment state (*DRIVING FORCE*); the result of these actions, meaning the environmental pressures (*PRESSURE*); the state of environmental components (*STATE*); the impact of changes resulting from the environment quality (*IMPACT*); the company's response to these environmental changes (*RESPONSE*). Developing of statistical indicators of sustainable development projected on the DPSIR framework and providing related data and information, represent a result of collaboration between the two institutions /

European organizations: EUROSTAT and European Environment Agency. EUROSTAT has responsibilities in data management belonging to the "Driving Force", "Pressure" and "Response" categories, while European Environment Agency focuses on indicators of the "State" and "Impact" categories. The concept of the framework was originally developed by Organization for Economic Cooperation and Development (OECD) - 1994 and is today used as a basis for most systems of statistical indicators for sustainable development, developed by national statistical institutes and by international organizations.

Figure 1. Components of DPSIR Framework.



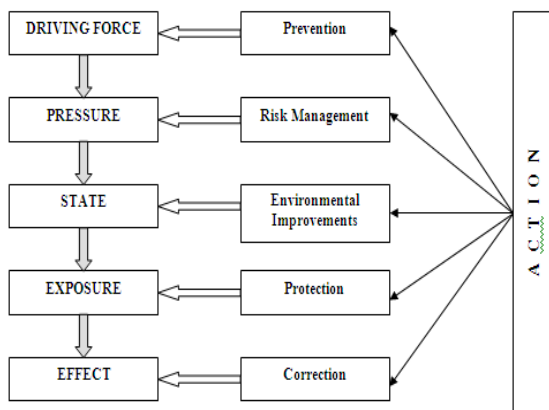
Source: made by the author.

Existing studies indicate the following DPSIR framework advantages: transparency and simplicity that facilitates the collaboration among scientists from different fields, due to the complexity of causal relationships, leading to a need for a multidisciplinary approach (biology, chemistry, economics, physics, politics, social sciences, etc.). Also, the model treats the connections between society and the environment in a simplified manner, winning by clarity. Environmental issues through the DPSIR framework are centred on human-being. The model establishes a connection between political objectives and environmental problems involving causal relationships between factors [10] [11].

### DPSEEA framework (Driving Force-Pressure-State-Exposure-Effect-Action)

The DPSEEA framework was developed by the World Health Organization (WHO) by adapting the DPSIR framework, in order to construct the statistical indicators system for sustainable health and environment. The model highlights a wide range of causal relations in environment and health domains. World Health Organization and some of the European countries have used this framework to develop indicators of environmental health.

Figure 2. Components of DPSEEA Framework.



Source: adapted after Bushra Waheed, Faisal Khan and Brian Veitch, *Sustainability*, 2009.

As seen in the above figure, the specificity of this model comes from the fact that policy makers, stakeholders (regardless they belong to the government, private households or firms) may take some actions to adjust any problems at any level (Driving Force, Pressure, State, Exposure and Effect), having a feed-back role. The model allows the inclusion of indicators that reflect how the environment state is altered by pressure from human activities (*Exposure*) and the effects of this exposure (*Effect*). In other words, the model breaks down the "Impact" category in two categories: "*Exposure*" and "*Effect*", making it more explicit.

DPSEEA framework has the following advantages: it explains and covers a wide range of causal relationships between monitored phenomena; allows a multidisciplinary approach of causal relationships, using the experience of specialists in several fields; enables actions

with feedback role at all levels; it is a flexible and adaptable model for many areas; unlike previous models, the DPSEEA focuses more on the impact between human activities that generate environmental pressures, detailing the manner in which the environment is exposed to human pressures and the effects of this exposure.

### 3. Comparisons between the four frameworks

None of the frameworks presented above is perfect for developing a system of statistical indicators of sustainable development, each has their own advantages and disadvantages. All models are based on cause-effect relationships, focusing more or less on one side of this causality. All four models generate information through the indicators included in each framework. They facilitate the integration -in a systemic approach- of the causes of environmental problems, of the impact on the environment, of the environmental status, of the response of various stakeholders to solve these problems. Framework-systems enable the communication of all information obtained to decision-makers, using an organized indicators-system and also help the formulation of economic and social policy measures, meant to adjust the encountered problems.

It is also possible, in some countries, a combined usage of several frameworks, obtaining a more complex hybrid model, better focused on the specificity of sustainable development problems of the various nations.

Table 1. Comparisons between sustainability-indicators frameworks.

Category	Framework			
	PSR	DSR	DPSIR	DPSEEA
Driving Force	-----	-----	-----	-----
Pressure	-----	-----	-----	-----
State	-----	-----	-----	-----
Exposure	-----	-----	-----	-----
Impact/Effect	-----	-----	Impact	Effect
Response/Action	Response	Response	Response	Action

Source: made by the author

### 4. Conclusions and future work

The analysis performed shows that there is no perfect model-framework that can be used in designing a system of statistical

indicators of sustainable development, but each of these models has its strengths and weaknesses. The first two models, PSR and DSR, although they are among the first models based on causal relationships between the monitored phenomena, they are, despite the simplistic approach, appreciated and used by major international organizations, in designing their statistical indicators systems of sustainable development. PSR framework is used by the OECD and DSR framework is used by the United Nations Commission for Sustainable Development. The last two frameworks (DPSIR and DPSEEA) are further developed by improving the first two models; they address -in more detailed manner - a wider range of cause-effect relationships. Thus, in the DPSIR framework (which represents the basis for the indicator-system of sustainable development, developed by EUROSTAT, in collaboration with the European Environment Agency), the indicators are divided into six categories: indicators of driving forces (*Driving Force*), indicators of the pressures exerted on the environment (*Pressure*), indicators of the environment state (*State*), indicators of the impact (*Impact*) and indicators of the responses of society in solving environmental problems (*Response*).

Two major criticisms on the DPSIR framework has been highlighted by researchers: the first aimed at the reduced importance of local, regional information and actions; the second refers to the fact that the model does not allow considering the role of social diversity on sustainability (population structure by gender, social and economic security of women, concern for child birth, women's access to education and training). However, many international organizations with responsibilities in official statistics, and many national statistical offices considered this framework appropriate for designing the statistical indicators system of sustainable development.

The DPSEEA framework is an upgraded version of the DPSIR framework; it captures driving forces (causes for the changes in the environment state) in a more detailed manner. It divides the "*Impact*" category in two categories: "*Exposure*" and "*Effect*".

Each of the presented frameworks can be used separately or in combination with other models, to design an indicator-system of

sustainable development. The author of this article will continue the research with the identification of a framework for designing a statistical indicators-system for sustainable tourism.

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## Youth Unemployment in European Union

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### Abstract

*The unemployment among young people is a phenomenon that affects a lot of countries.*

*This paper aims to create a classification of some European Union countries and to discuss the possible factors that potentially lead to a higher unemployment rate among young people, by taking into consideration the unemployment rate, the GDP rate and the inflation rate. Based on the data provided by Eurostat, the paper provides valuable information regarding the unemployment phenomenon among young people. The statistical analysis was made by using some hierarchical methods for a part of European Union countries.*

**Keywords:** unemployment, tertiary education, labor market.

**J.E.L.:** I23, J23, J24

### 1. Introduction

Unemployment spells early in a young person's work life can have lasting negative effects on future earnings, productivity, and employment opportunities. It is important, therefore, that policymakers better understand the causes of youth unemployment so that they can act to reduce unemployment among young workers and help them build the skills necessary to regain their footing in the labor market. [1]

The youth unemployment rate is an important aspect that needs also to be studied from the perspective of the education's implications. For young people these periods are doubly troubling, not only are they the first targets of job cuts but also their transition from school to the job market

becomes almost impossible. [2] Youth unemployment is increasing because firms prefer employing already qualified and experienced workers. In this context, particular importance should be given to the relationship between education and labour market requirements so that imbalances such as over-qualified, under-qualified, over-education and under-education, skill obsolescence, skill shortage, skill gap should be avoided. [3]

High rates of youth unemployment in many European Union countries do not have to be attributed exclusively to the economic crisis but to imperfections in the labour market. [4]

It is also known that not all the countries were affected in the same manner by the global economic crises. In countries like Spain and Greece, one of the possible factors that lead to higher values for the youth unemployment rate can be associated with the global economic crises.

### 2. Data and methods

We used some hierarchical methods in order to create a ranking between some European Union countries. The hierarchical methods used are: the rank sum method, the relative distances method and the real rank method.

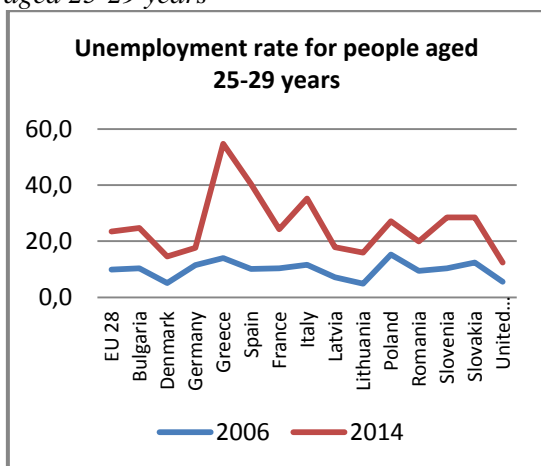
The indices were obtained from Eurostat and the countries included in the analysis are: Bulgaria, Denmark, Germany, Greece, Spain, France, Italy, Latvia, Lithuania, Poland, Romania, Slovenia, Slovakia, United Kingdom. [5] The selection was made by taking into consideration the cultural similarities, the level of development of each country. The data was registered for the years 2006, 2007 (were we did not have information for 2006 available) and 2014.

The indices included in the analysis are the youth unemployment rate – for the young people aged 25-29 years, the inflation rate and the GDP per capita. We chose this age range due to the fact that the number of tertiary education graduates has an ascending trend. The last two indices included in the analysis were chosen due to their importance for the development level.

### 3. Results and discussion

From the below picture we can observe that the most affected countries by the youth unemployment are Spain and Greece with an increasing of 20.2 pp for Spain and 26.8 pp for Greece. If we take a look at Romania we can conclude that it is not affected by the global economic crises (in 2014 the unemployment rate was 10.5%, while in 2006 was 9.4%) and neither can be considered a lucky country of the actual context. Romania is the country with the lowest difference between the two years included in this graph (the index increased only with 1.1 pp). It seems that Germany and Poland are not affected at all by the actual economic context – for these countries the youth unemployment rate has a decreasing trend. Germany is known as a powerful country, but Poland can be considered a surprise.

Figure 1. Unemployment rate for people aged 25-29 years



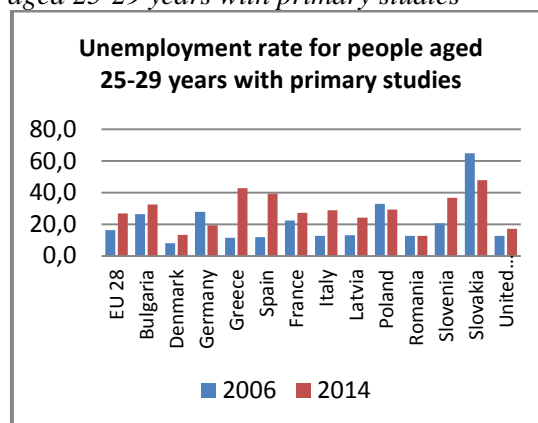
Source: <http://ec.europa.eu/eurostat.com>

If we analyze the unemployment rate for the graduates of primary studies in parallel with the graduates of secondary studies and with the graduates of tertiary studies we can

observe that for almost every country we have the following relationship:

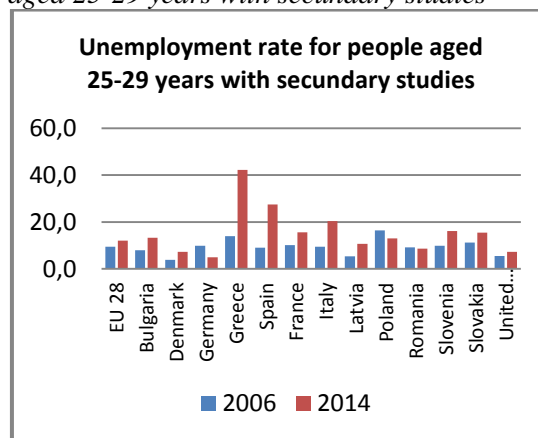
**unemployment rate for tertiary studies graduates < unemployment rate for secondary studies graduates < unemployment rate for primary studies graduates**

Figure 2. Unemployment rate for people aged 25-29 years with primary studies



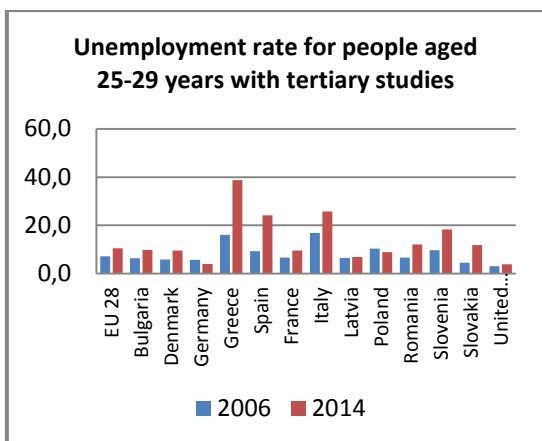
Source: <http://ec.europa.eu/eurostat.com>

Figure 3. Unemployment rate for people aged 25-29 years with secondary studies



Source: <http://ec.europa.eu/eurostat.com>

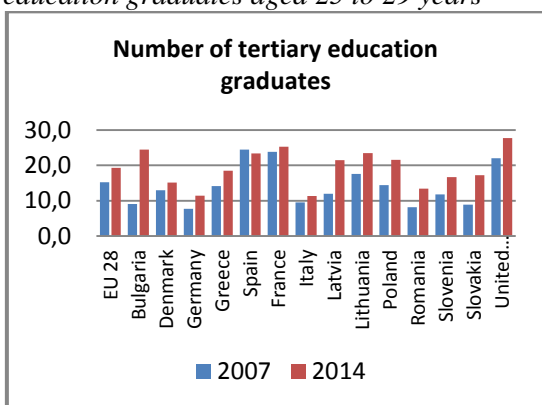
Figure 4. Unemployment rate for people aged 25-29 years with tertiary studies



Source: <http://ec.europa.eu/eurostat.com>

Even if for some countries, the unemployment rate for the young people with higher education has a more accelerating increase, this aspect does not discourage the young people to attend a higher education program. This thing is reflected in the number of tertiary education graduates.

Figure 5. The number of tertiary education graduates aged 25 to 29 years



Source: <http://ec.europa.eu/eurostat.com>

The increasing values for the number of tertiary education graduates have a possible negative aspect – the decrease of the credibility of the diploma.

According to the above graphic, we can conclude that almost in every country included in the analysis, the number of graduates is bigger in 2014 than in 2007. The only country in which the number of graduates is smaller in 2014 than in 2007 is Spain. If we take a closer look at Romania we can see that the number of higher education graduates increased with 5.2 pp, fact that strengthens the idea that the signal of the diploma is getting dilute. The future employers have to seek for alternative ways to signal their productivity and their

knowledge. Due to the large supply on the labour market, the employees have to differentiate the candidates in order to take the best decision. That’s why the diploma is not enough.

In order to underline more the situation in some European Union countries for this index – the unemployment rate among young people, and also to make a ranking to see where Romania is placed, we use as statistical methods the ranking methods: the rank sum method, the relative distances method and the real rank method. The indices included in the analysis are: the unemployment rate for young people aged 25-29 years, the GDP and the inflation rate. The data refers to the year 2014.

Table 1. The rank sum method

Country	Inflation rate ranking	Unemployment rate 25-29 years ranking	GDP per capita ranking	Relative distances	Rank
EU 28	7	8	5	7	5
Bulgaria	13	10	14	12	15
Denmark	3	3	1	2	12
Germany	2	1	2	2	12
Greece	5	15	9	10	89
					10
					11
					12
Spain	6	14	7	9	7
France	1	9	4	5	34
Italy	4	13	6	8	6
Latvia	14	5	12	10	89
					10
					11
					12
Lithuania	15	6	11	11	13
					14
Poland	10	7	13	10	89
					10
					11
					12
Romania	15	4	14	11	13
					14
Slovenia	9	12	8	10	89
					10
					11
					12
Slovakia	8	11	10	10	89
					10
					11
					12
United Kingdom	11	2	3	5	34

Source: <http://ec.europa.eu/eurostat.com>

By using the rank sum method we do not



obtain a very clear ranking – due to the equality of the R medium, a lot of countries have assigned the same rank.

If we apply the second ranking method, we can conclude that the ranking is more accurate, with different ranks for each country. This second method of ranking has also a disadvantage – all the indexes included in the analysis have the same importance, they receive the same weighting factor (1).

Table 2. The relative distances method

Country	K Inflation rate	K Unemployment rate 25-29 years	K GDP per capita	K medium	Rank
EU 28	1.046	2.23	0.599	1.118	6
Bulgaria	1.236	2.36	0.127	0.719	15
Denmark	1.016	1.56	1	1.165	5
Germany	1.005	1.00	0.772	0.919	10
Greece	1.037	6.69	0.357	1.354	2
Spain	1.045	4.97	0.500	1.374	1
France	1	2.30	0.711	1.177	4
Italy	1.032	3.87	0.583	1.326	3
Latvia	1.281	1.75	0.265	0.842	11
Lithuania	1.212	1.80	0.272	0.841	12
Poland	1.087	1.93	0.235	0.790	13
Romania	1.339	1.72	0.164	0.724	14
Slovenia	1.074	2.97	0.397	1.082	7
Slovakia	1.063	2.64	0.305	0.949	9
United Kingdom	1.107	1.13	0.754	0.981	8

Source: <http://ec.europa.eu/eurostat.com>

The third method used is the real rank method which is the most accurate one due to the weighting factors applied for each index. The weighting factors used in our analysis are:

- Inflation rate → 0.2
- Unemployment rate 25-29 years old → 0.6
- GDP per capita → 0.2

Considering that our main focus in this paper is the unemployment phenomenon, we assigned the biggest factor to this index (0.6). The two other indexes have the same importance, that's why we assigned them the same factors (0.2).

Table 3. The real rank method

Country	Ri Inflation rate	Ri Unemployment rate 25-29 years	Ri GDP per capita	Medium rank	Rank
EU 28	2.896	4.026	4.219	3.839	5
Bulgaria	10.742	4.349	8	6.358	13
Denmark	1.651	2.372	1	1.953	2
Germany	1.222	1	2.829	1.410	1
Greece	2.535	15	6.153	10.738	15
Spain	2.857	10.764	5.010	8.032	14
France	1.000	4.187	3.322	3.377	4
Italy	2.331	8.061	4.342	6.171	11
Latvia	12.617	2.856	6.892	5.615	10
Lithuania	9.766	2.977	6.839	5.107	8
Poland	4.585	3.300	7.138	4.324	6
Romania	15.000	2.775	7.701	6.205	12
Slovenia	4.063	5.841	5.837	5.485	9
Slovakia	3.587	5.035	6.575	5.053	7
United Kingdom	5.444	1.323	2.970	2.476	3

Source: <http://ec.europa.eu/eurostat.com>

The final real medium rank indicates for each country its position in the final rank and also the distance between each country and the other ones. For example, Denmark and Germany are situated close one to the other, while Spain and France are located far apart

one to the other.

#### 4. Conclusions

By applying the three ranking methods we can conclude that the most accurate method used is the last one. The countries with a situation that needs to be under observation (regarding the indexes included in the analysis) are Greece, Spain and Bulgaria. Regarding Greece and Spain it is known the fact that these countries are very affected by the global economic crises. The Bulgaria's ranking is not a surprise, due to the fact that this country it is known as being a less developed country in European Union. In the opposite part are situated countries as Germany, Denmark and United Kingdom. These countries are known as being the most economically developed. Romania is situated on the 12<sup>th</sup> place, far below the European Union average. Considering that the unemployment rate among young people did not increase too much from 2006 to 2014 (from 9.4% to 10.5%), that the GDP per capita increased from 2006 to 2014 (from 4600 euro per capita in 2006 to 7500 euro per capita in 2014) and that the inflation rate increased not too much from 2006 to 2014 (from 106.6 in 2006 to 154.71 in 2014) – it is true that this is a negative aspect, but it not has the same importance (weighting factor) in our analysis, we can conclude that Romania's ranking cannot be put down to the global economic crises. Romania is known as being a medium developed country.

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## Agreeing over TTIP: the Ninth Negotiation Round

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### Abstract

*The Transatlantic Trade and Investment Partnership or TTIP, is a negotiating trade and investment deal between the two most powerful economies in the world, namely European Union and the United States.*

*Designed to cover three pillars on subjects like market access, regulatory cooperation and rules, the final agreement would result in multilateral economic growth by broadening rules, principles and models of co-operation. Negotiations are held in cycles that alternate between Brussels and Washington.*

*The ninth round of negotiations took place between 20-24 April 2015 in the State of New York, where textual proposals were analyzed and consolidated text was prepared, representing a full working consensus of the negotiation teams. Agreeing over TTIP will ensure that EU and US will remain standard makers rather than standard takers in the future global economy.*

**Keywords:** TTIP, EU, US, Regulations, Market Access

**JEL Classification:** F510

### 1. Introduction

In early 2013, The United States and European Union High Level Working Group on Jobs and Growth started the necessary procedures for initiating the negotiations over a free trade agreement, namely the Transatlantic Trade and Investment Partnership (TTIP) and “reached the conclusion that a comprehensive agreement that addresses a broad range of bilateral trade and investment issues, including regulatory issues and contributes to the development of global rules ...”[1] should be brought to an end.

### 2. What is TTIP about

Deepening transatlantic integration is a way to advance bilateral trade by covering the mutual interest of both the United States (US) and the European Union (EU), following the old idea of liberalizing the transatlantic trade and “jolt the world Trade Organization (WTO) and its Doha Round in the right direction”. [2]

The first round of negotiations was held in Washington D.C. in July 2013, while the ninth round of negotiations took place in April 2015 in New York.

The aim of TTIP is to facilitate the commercial exchanges of goods and services between the two giants of the world economy and to enhance investments on both sides of the Atlantic, by removing trade barriers that include tariffs and non-tariff measures such as differences in regulations.

Together, EU and US have a tremendous opportunity to advance mutual foreign policy goals [3] besides the fact that in the present, they present substantial regulatory differences, mainly reflecting dissimilar concerns or approaches. Therefore, the members of the civil society raised concerns regarding the TTIP negotiations, that the legal harmonization that could result after concluding the negotiations of TTIP may undermine the levels of protection in many sectors, though in certain areas there might be possible a convergence that would not undermine the existing levels of protection in the EU and the US. In order to support the ongoing process, the European Commission publicly affirmed that all the possible will be done in order not to lower or endanger these levels of protection.

Regulations represent laws that protect the citizens from risks in the areas like health, safety, environment and financial security. By negotiating over the TTIP provisions, EU and US want to find common-sense ways to

keep people protected by making the regulations already set, more compatible.

### 3. How TTIP would work

TTIP acts on a large scale; EU consists of 28 member states, each with its own particular interests that are pressing for trade promotion or its protection, all this rising from comparative advantage, history and raw domestic political power. The treaty itself is designed to have 24 chapters, grouped into three parts. The desired scope of the agreement is a vast one, including both individual citizens and large and small businesses by opening up the US to EU companies, helping cut the red tape that firms face when exporting and by setting new rules to make it easier and fairer to export, import and invest abroad. [4]

The improving access to the US market includes helping EU companies, without taking into consideration their sizes and the object of activity to get a better access to the market across the Atlantic. The target of the TTIP is that after closing the negotiations, the European firms would be able to win government contracts and increase the exports to the US along with enlarging the imports of goods and services and investing more easily in the US.

The regulatory cooperation implies determining the regulators both in Europe and United States to work more closely and improve the quality and the results load. For an European company to export to the US, there is needed a set of rules and standards to be respected. Even though these rules may differ in their technical details or checking procedures, often they ensure the same safety and quality level. By endorsing the strict protection levels of EU and US, the costly procedures may be avoided and/or reduced to minimum.

Prevention over this type of situation is taken into consideration within the existing TTIP negotiations, by checking on where the existing standards match but apply differently and recognize each other's rules, ensuring that the EU exports to US only have to meet the EU regulations. The process of meeting such a result implies drawing rules that stand on a common base and dually recognized by both sides of the negotiations. These actions will safeguard the regulators'

independence, respecting the precautionary principle and the governments' right to individually regulate by obeying the common base of rules.

The ultimate purpose of TTIP is represented by the new rules, that concern with making the cooperation between EU and US easier and fairer. This aspect implies a fully benefit from TTIP in the case of small companies, by enabling the process of having access at the needed energy and the raw materials on the other side of the Atlantic, by protecting their intellectual property, investing in a safe and confident manner and ultimately save money and time at customs by doing the necessary paperwork. The rules that will be set out following this process will highlight the sustainable development by protecting people's rights at work and the environment and will create and maintain a secure formal system addressed to the civil society that includes business bodies, trade unions and consumer and green groups. At long last, the new rules will create a mechanism designed to avoid the disputes between governments both in EU and US and increase the population credibility towards the imports, exports and investment activities.

Europe is currently facing big challenges, counting the kick-starting of the economy, responding to close borders conflicts, adapting to the globalization process and the challenges of the emerging economies and struggling to maintain and increase its influence in the world.

EU's experience of reaching trade agreements in the past, suggests that TTIP would help generating jobs and economic growth across the European Union and reduce prices while increasing offer on the markets. By using an European approach, TTIP would help the Union to influence the world trade rules and project EU's values across the Globe.

On the other side, EU has to ensure that the imported products from across the Atlantic meet the same standards as on the European continent, in order to protect the health and safety of the people and also respect the environmental standards of protection. If TTIP will be concluded, EU governments will be able to maintain their rights to adopt laws, rules and regulation and

protect the nationals, the environment and the public services.

#### **4. The impact of TTIP over third countries economies**

“Free trade between big economies has bigger effects than trade deals between smaller economies”. [5] TTIP is designed to benefit not only the parties – EU and US, but all the economies worldwide. Regarding the advantages, reaching on an agreement with the US, TTIP would create jobs and boost EU’s influence in the global trade.

The European Union and United States share the largest bilateral trade relationship in the world, meaning that they represent the top export markets one for another. Agreeing over TTIP would make especially for the smaller companies to be easier and cheaper to export in the US, import goods and services and obtain investments from the US. In March 2013, the European Commission ran an independent study in order to outline the benefits of the EU-US trade agreement, not only for the two trading economies, but on a global level. It concluded that TTIP would generate growth by creating jobs and help the small EU companies to compete internationally and encourage them to innovate.

Increasing the investment level, it would result into an automatically increase in the EU -US flexibility on the international markets. TTIP proposes stable and permanent rules regarding trade, granting the EU with the certainty towards US investors, altogether resulting in an increase of certainty and diversity of energy sources in Europe. In this respect, US investment in the EU would increase and offer a new infrastructure the European economy needs.

In regard with the global trade, TTIP would encourage developing new regulations by working internationally with regulators, achieve standards, update the existing regulatory EU-US frame and assemble a new set of high standards, creating a basis for the international regulators. Due to the fact that EU-US trade accounts for about 40% of the global trade, enabling the new approach consisting in rules and regulations, would determine states across the globe to adopt similar behaviors. [6]

EU and US share a long lasting trade relationship, due to which they reached to adopt many common values, like promoting human rights, adopting a transparent manner of governing reflected in the market’s characteristics, which are well determined and enjoy a free and fair competition. Ultimately, the EU-US relationship values the protection of people’s rights at work and also respect and obey the environmental rules. These aspects stand on the base of TTIP that will moreover include areas regarding the global trade that are not covered by the World Trade Organization (WTO), such as competition policies, the trade role in promoting sustainable development and free access to energy markets. TTIP also proposes the protection of people and planet by ensuring commitment to international trade rules while taking into consideration the protection of endangered species, the environment as a whole along with people’s health and the working conditions. TTIP proposes the idea of a rule that would prevent weakening each side’s standards in order to lower the costs of production and delivery and to protect the existing regulation and amend it by inserting novelty and refining quality.

Agreeing over TTIP rules and regulations, would imply a better value of the products and services along with an increased variety of choices on a smaller cost. These aspects would help companies to compete globally while making their final products and deliver the services in more favorable conditions.

#### **5. Concerns over TTIP agreement**

TTIP is addressed not only to people in the EU and US, but also to the ones across the Globe. Considering this issue, there are concerns raised in regard with international standards, public services or investor’s rights.

Companies making business in EU or US have strict standards to meet in areas like environmental protection, food safety or people’s working conditions. One of the problems when exporting from one side of the Atlantic to the other consists in standards that are the same both in EU and US, but the rules that apply it are different. TTIP proposes the uniformisation of rules into this area, so the costs of exports from EU to US and vice versa to be cut and the trade activity

encouraged. TTIP would protect the existing high standards by sheltering the EU’s regulators independence, endorsing the precautionary principle and ensuring the national governments’ rights to pass new laws in the future in order to protect people.

TTIP would also rule in the area of public services, like hospitals and schools, by ensuring that governments will still be able to run these services by using their own national rules and customs.

Altogether, EU countries agreed over 1400 agreements in order to encourage foreign investment. The preset rules grant overseas investors with certain rights, through which may be named Investor State Dispute Settlement (ISDS) which deals with unequal treatment as the nationals. In a certain case, ISDS grants the investor with the right to ask an international arbitrator that in the case of unfair behavior, makes the government to pay a compensation.

TTIP aims to improve this system by defining “unfair treatment” more clearly and strengthen EU governments’ right to regulate.

TTIP implies three main stages in negotiating, namely mandate, negotiation and decision. The first step implies the negotiation of EU Governments with the European Commission that has the attribute of being the EU’s civil service. This process implied guidelines given by each of 28 Governments of the member states to start the negotiation in July 2013. The next step is the longest in time, negotiation of trade deals involving in certain cases, several years. In the case of EU’s TTIP Team, negotiation involves meetings with the United States’ Trade Representative team of negotiators, swapping written proposals and drafting final results. The next step implies both EU governments and a Member of the European Parliament (MEP) to take a final decision that comes with a double democratic guarantee.

The talks started in June 2013, continuing with nine negotiation rounds with the US counterparts and backed off with consultations and events designed for the stakeholders and the public, that took place both in between and during negotiations.

## **6. The process of the 9<sup>th</sup> Negotiation Round**

During 20-24 April 2015, in New York, New York, EU and US negotiators joined together in order to discuss about the ninth negotiations round of TTIP, not long after the Congressional Trade legislation and the Trans Pacific Partnership (TPP) debates took place. Partly, there were discussed market access issues surrounding tariffs and government procurement, but most of the emphasis was on the regulatory cooperation and rules chapters on TTIP. [7]

EU and US are still in disagreement over approaching regulatory text. EU’s concerns mostly regard with creating a mechanism for engagement between governments’ regulatory bodies while the interest of the US focuses more in establishing “good regulatory practices” obligations. [8]

On Market Access, the discussions have continued on subjects like tariffs, agriculture, trade in goods and public procurement, without covering the services area, for which reason in the 10<sup>th</sup> negotiations round an exchange of revised offers will be presented. In the tariffs negotiation area, a product review of the tariff offers was carried out, granting both sides with the possibility of explaining the rationale behind the treatment of categories in the presented offers. The agriculture subject included discussions where issues like wine and spirits tariffs were touched. Trade in goods negotiation resulted in narrowing differences between parties’ proposals including waiver of customs duties, remanufactured goods and import/export licensing. The Public Procurement area covered two days of technical discussions where there were clarified the existing market access commitments. The EU and the US are supposed to use a combination of a positive list approach, which the EU traditionally uses, combined with a negative-list approach mainly used by the US. [9]

The Regulatory cluster covered all the horizontal aspects like sanitary and phytosanitary measures (SPS), technical barriers to trade (TBT’s) and Regulatory Coherence, and covering in depth all the nine sectors provisioned by the regulatory pillar. Following the temporal factor, in SPS area of negotiations, the state of pending applications was reviewed in addition to discussions

meant to clear the meaning of the text proposals.

On the Regulatory Coherence area, EU presented its revised text on regulatory cooperation, insisting on clarification of terminology and identifying priorities for future cooperation. TBT area focused on eliminating duplicative testing for manufacturers, supported by the US new proposal that pretends to be added to existing language. [10] EU and US continued the discussions on the four areas of Cars negotiations, focusing on safety rules and mutual recognition. In the area of Chemicals, two pilot projects made progress, the discussions mainly covering clarifications on both sides in respect with the future provisions. EU and US assessed the equivalence of the Good Manufacturing Practices (GMP) system, process that will be continuously audited by representatives of the Member States during 2015. On Medical Devices area, EU presented its position paper, and answered to clarifications needed by the US representatives. The main EU objective on Cosmetics area consists the safety assessment methods and the authorization procedure in the US. Discussions continued on the Textile safety requirements, US showing a special interest for non regulatory issues in this sector, such as tariffs and rules of origin. The Information and Communication Technologies (ICT) covered different EU and US initiatives on the areas of encryption, e-labelling and e-accessibility, but a final structure has not be agreed upon. In the Engineering negotiation area, both parties' representatives discussed possible areas of cooperation. As for the Pesticides, negotiations continued aiming to consolidate the basis of collaboration, but have not made considerable progress.

Rules area of negotiation covered six subjects. On the Energy and Raw Materials, EU and US worked in making a list of possible areas to be covered in TTIP. Customs and Trade Facilitation area, further progress was made related with the consolidated text. Intellectual Property Rights (IPR) were touched trough two proposals submitted by the EU, followed by technical questions and updated on the corresponding legislative process. Both sides had difficulties when discussing about Geographical Indicators (GI's), in opposition

with the Small and Medium Enterprises (SME's) topic, where the cooperation provisions are subject to final review. The US argued that GIs are a matter of intellectual property (IP), which means that any IP holder is supposed to pay for the enforcement of its rights. [11] The state-to-state Dispute Settlement chapter consisted in constructive discussions, aiming to establish an effective mechanism meant to solve any possible disputes that might disturb the Parties workload on the interpretation and implementation of TTIP.

An Important element of TTIP would be the rules development, meant not only to govern the EU-US bilateral trade relationship, but to also contribute in establishing global rules and standards covering interest areas, and also followed by the third countries.

The next round of negotiations should take place on mid-July in Brussels, continuing discussions on the reviewed proposals and covering negotiations over the three broad areas TTIP is supposed to cover after concluding.

## 7. Concluding remarks

The long expected TTIP is a promising political undertaking, meant to benefit both EU and US, along with the third countries. This step is only going to succeed mainly if negotiations in the areas of regulations and standards will come to an end. In order not to change the actual course of international trade and disadvantage as a consequence the third country producers, EU - US negotiated standards should also be open for them.

TTIP open regulatory regime could be beneficial for the global trade, mainly due to the fact that it represents a major trade agreement designed to integrate both sides of the Atlantic economies, as long as third parties.

Regional economic integration is supposed to increase the economic activity and trade between EU and US, by stimulating trade through mutual recognition of product standards and regulations.

The potential effects of the abovementioned trade deal occur under the influence of three main characteristics – the enormous sizes of both involved economies,

extensive intra-firm trade between them and high levels of intra industry trade.

Currently, the applied trade tariffs in the EU and US are low, but sectoral differences and tariff peaks are present. This is why the desired regulation harmonization can be seen as a double edged blade. TTIP is designed to reduce transaction costs and removal of the trade barriers to the transatlantic trade, but ante-harmonization reduces the benefits of regulatory competition.

Third countries and the desired non discrimination is previewed though an open mutual recognition agreement that allows all the foreign competitors to choose between EU and US standards, the third parties being granted with the standard recognition of the product in all TTIP countries.

TTIP aims on reducing non-tariff measures and regulatory differences in order to unlock economic gains for both EU and US than a reduction in traditional tariff duties. The desired scope is negotiating market access in services that according to the HLWG report, will reach the “highest level of liberalization captured in existing FTAs”. [12]

The effect of the TTIP on low income countries is expected to be small, the harmonization and standards mutual appreciation will not be discriminating if correctly applied.

The ninth negotiations round that took place on April 2015 in New York, continued the discussions around all the three pillars structured in 24 chapters TTIP is designed to touch: market access, regulatory cooperation component and rules. Regulators, businesses and citizens across the Atlantic are altogether going to be under the effect of aligning existing and future rules in order to regulate requirements that are currently affecting trade or investments.

The negotiating teams are likely to next meet for the 10<sup>th</sup> negotiation round in Brussels, where a broad range of topics will be the subject of consolidating work in all the three pillars of the negotiation.

Agreeing over TTIP would represent the best opportunity for the European Union and the United States to “set global blueprints by providing template on which other trade deals can build. [13]

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## NEETs Analysis in Romania

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### Abstract

*In the last few years the policies and the strategies were created in order to reduce social exclusion. For this purpose problems faced by youths concerning education and employment are defined by the acronym NEET.*

*This article describes and analyzes the evolution of the NEET marker in Romania compared to UE countries.*

*To reduce the number of NEET youths it is of foremost importance that the youths feel part of the inclusion process.*

*It is vital the creation of a financial and educational policy tailored to meet the young people needs as a long term goal with the purpose of reducing the percent of unemployed youths or those lacking any form of professional training after finishing school.*

*Practically everything is reduced to the establishment of trust relationships between youths and their teachers.*

**Keywords:** NEET, education, social exclusion, inclusion policies.

**J.E.L. Clasification :** C2, I24, I28, J88.

### 1. Introduction

There is no need for a detailed analysis of the traditional markers concerning labour market participation to notice that the youth segment is not is not well covered.

For young people cases, considering many are students and thus unemployed we are talking about a skewed view concerning the rate of employment and unemployment and so we can say that reality is distorted.

Because of this, the European Commission representatives have easily adopted the NEET marker.

The NEET youth category made its first appearance in Great Britain.

Starting with the definition of the NEET indicator, we can sketch the major characteristics of a NEET youth. This has a low level of education, comes from split families, low wage families, with unemployed parents or parents lacking education. The existence of a physical handicap, being an emigrant or hailing from remote areas are also attributes of a NEET youth.

The purpose of this research is an in depth study of NEET phenomenon, bringing to light the major social and demo-graphical differences as well as the political and economical ones. So I will using methods based on cross-sectional data taken from EUROSTAT and longitudinal data from EUROSILC..

### 2. NEET

The concept of NEET first appeared in Great Britain in the late 80`s and the beginning of the 90`s as the result of a need to analyze the youth, age 15 to 24, wich were unemployed, not in school or lacking any form of training.

The motivation behind the calculation on this marker was associated at the time with the changes in social welfare systems. Thus many young people, age 16 to 18, were not on welfare. [1]

In contrast with the majority of european countries, who by NEET definition take in account young people, age 15 to 24, unemployed and lacking education or training, in asian countries such as Japan and Korea, this category tends to be associated with a social phenomenon which not only affects the labour market but also the integration of the young generation in society. According to OECD, in Japan the NEET differs greatly from the european NEET, by including people, age 15 to 34, who are unemployed, have no access to school and have no home. [2] Similarly

in Korea NEET is about people, age 15 to 34, who abandoned school, are unemployed, are not seeking a job, are not married and have no family. [3]

Depending on the adopted definition, at European level, NEET includes youth age 15 to 24 or 15 to 29.

The lack of an international approved definition and big disparity between attributes makes comparison between countries difficult worldwide or in UE. Because of this, in the last 10 years, international organizations such as the European Commission or OECD have started to create and put in practice their own definition of NEET to better make comparisons between countries.

According to Eurostat [4], the NEET marker is about the 15 to 24 group age. For analytic purposes is classified like this:

- based on sex and age group: 1 to 19 years, 15 to 17 years, 15 to 24, 15 to 29, 15 to 34, 18 to 24, 20 to 24, 20 to 34 and 25 to 29 years of age.
- based on labour market status: unemployed or inactive;
- based on education level: at most the lower secondary level or at least the least the higher secondary level.

Statistically speaking, the NEET marker is about a very heterogeneous population. The NEET population contains a variety of sub groups and not all the included people are vulnerable. According to literature five specific subgroups stand out among the NEET population:

- the conventionally unemployed, the biggest subgroup;
- the unavailable, people with families, who are sick or handicapped;
- the disengaged: people not seeking employment and not in school and who are not constrained to do any of the above;
- the opportunity seekers: youth who are looking for work or education but are being exploited;
- the voluntary NEET: youth who travel, are engaged in other activities such as art, music, learning.

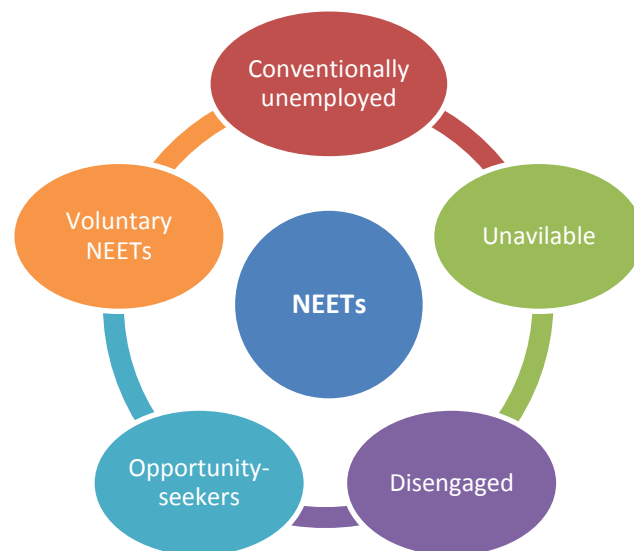
The five categories identified include a combination of vulnerable and non-vulnerable, very poor people and people who choose not to work or educate themselves.

Considering the social economic and individual factors involved which determine

the inclusion of a person in a category we can consider NEET a composite marker which captures in its essence the complexity of the phenomenon.

Figure 1 - The heterogeneity of the NEET population

Source: Eurofound (2012)



### 3. NEET analysis in UE countries

In today's world is education still important or not?

Starting with 2009 benefiting from a higher education is no longer a shield against unemployment. Furthermore the level of education in countries such as Italy, Greece, Romania but also Denmark or Finland, is no longer a guarantee that you will find employment. The risk of unemployment is no longer falling proportionally with the level of education.

More often than not, in the above mentioned countries higher education or no education is same thing where the risk of unemployment among the young is concerned.

At a first glance the two notions are similar but they are complementary to each other, at European level NEET can be considered another marker measuring the rate of unemployment.

The rate of unemployment is applicable to those with no jobs, who sought employment in the last months and are capable of starting to work in two weeks time

It registers the percent of the population economically active who could not find

work. Among the young people, the rate of unemployment can be erroneous considering the people giving up their jobs to return to school or those who decide not to seek employment. Economically speaking, in both cases, these people become inactive which makes them irrelevant in determining the rate of unemployment.

While the conventional unemployed are prone to become a vulnerable group that suffers from a lack of available jobs, opportunity seekers are less vulnerable as a group and come from a more privileged background they voluntarily decide to remain outside the labor market and the education system in order to withstand opportunities.

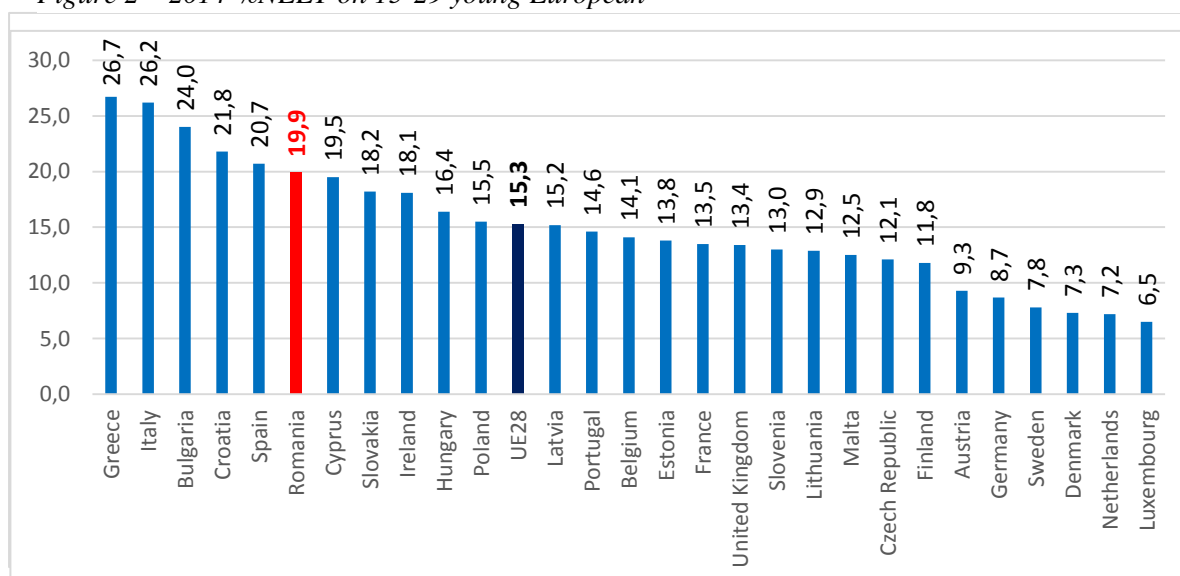
in order to take care of their children.

It's important to emphasize that the heterogeneity of the NEET population needs to be considered when policies to re-engage the NEET on the labour market or in education.

The different needs and characteristics of the different subgroups must be taken into consideration and a one size fits all approach must be avoided. Only an approach based on the needs of the various subgroups will be able to successfully re-integrate NEET.

According to Eurostat data from 2014, the european NEET average rate for youths age 15 to 29, is 15,3% (Figure 2).

Figure 2 – 2014 %NEET on 15-29 young European



Source: Eurostat, own elaboration

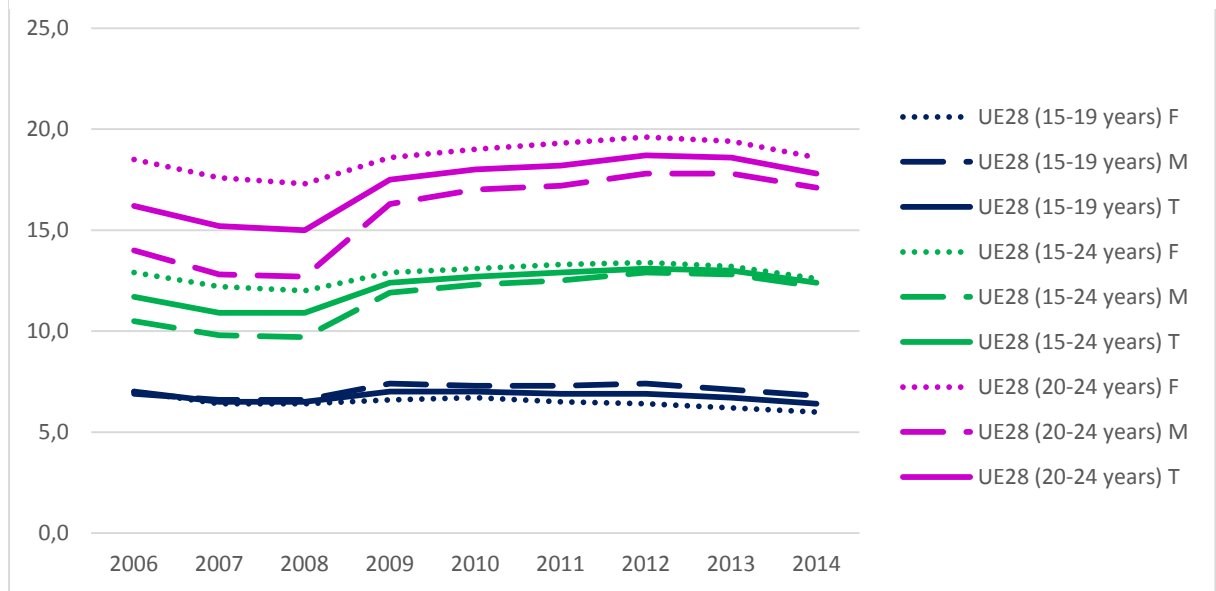
The same can be said about NEET voluntaries who decided to follow alternative paths and are engaged in other types of activities. On the other hand the disengaged and those who sought employment and failed are a no longer actively seeking a job are more vulnerable, their situation being more complex. This is group is also prone to adopting a more dangerous and anti-social lifestyle. And last, the unavailable group contains a mix of vulnerable and non-vulnerable people: handicapped youth who need help to gain employment or education, young mothers who are not capable to take care of their children, and also young mothers who voluntarily abandon their jobs

### 3.1. Trends in NEET rates

The NEET trend analysis on the same group age 15 to 29 shows that between 2006 and 2014 the average rate of NEET youths is in decline till the beginning of the crisis and then rises slightly. From 13,9% in 2006 to a minimum of 13% in 2008. Figure 2 shows this trend by age and gender.

From the onset of the recession the NEET rate has risen in all member states with the exception of Austria, Germany and Luxembourg. The UE NEET average rate has risen from 13% in 2008 to a maximum of 15.9% in 2013, followed by a slight increase in 2014 (15.3%).

Figure 3 - Trends in NEET rates, by age and gender, 2006–2014



Source: Eurostat, own elaboration

It is interesting that the difference between men and women has gone down during this period. This correlates with the tendency observed in unemployment rate analysis.

While in 2006 the average rate for men was 11% and 16.9% for women the difference now is less than 4% and in 2014 the NEET rate among men was 13.5% compared to 17.1% among women.

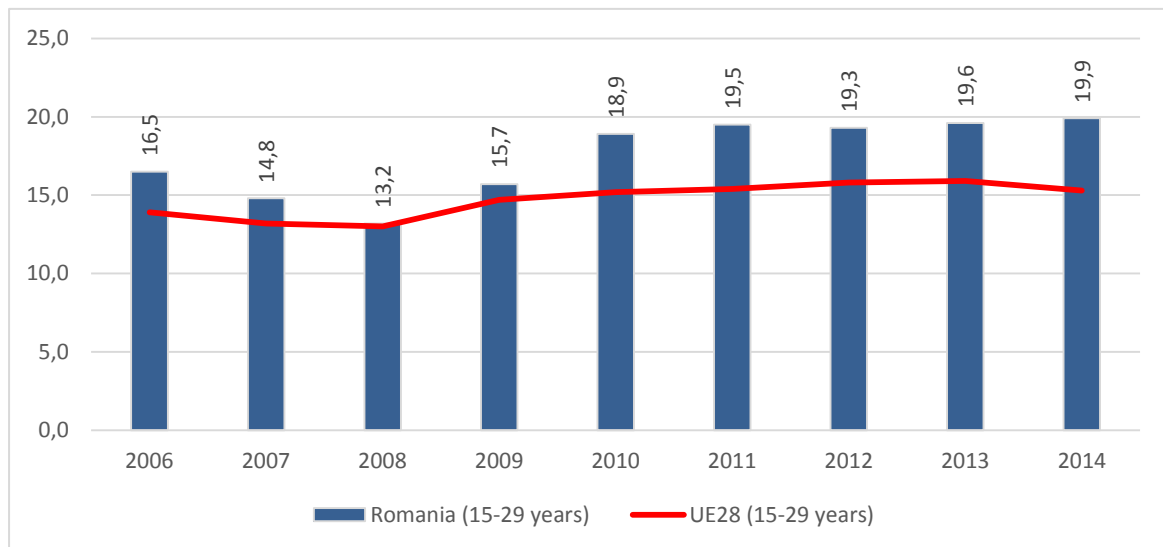
The difference is not universal. In Northern Europe the NEET rate among men is bigger than among women while in Southern and Eastern Europe it is the exact opposite.

#### 4. NEET în România

Romania registers the highest NEET percent of all EU countries 19.9% in 2014. It is concerning that this is an ascending trend.

The NEET rate analysis for Romania in the same group age, 15 to 29, indicates that between 2006 and 2014 NEET youth average rate has gone down till the onset of the crisis and started to rise afterwards. If in 2008 Romania had a NEET rate very close to the UE rate (Figure 4) 13.2% compared to 13% in 2014 the difference was bigger than 4% (19.9% compared to 15.3%).

Figure 4 – 2006 – 2014 %NEET on 15-29 young, Romania



Source: Eurostat, own elaboration

The crisis was felt among the youths its effects obvious in Romania's case.

What is interesting when talking about Romania is the fact that the NEET rate difference between men and women hasn't changed almost at all in 2014 (7.1%) compared to 2006 (7%).

While in 2006 the average rate was 13% for men and 20% for women and in 2008 the NEET rate among men had gone down to 8.9% and 17.8% among women in 2014 it has gone up to 16.5% among men and 23.5% among women

In Romania as in all UE countries NEET gender rates are strongly correlated which means that apart from a few examples, the biggest NEET women rates can be found in member countries with the biggest NEET men rates. And also the smallest NEET women rates are found in member countries with the smallest NEET men rates.

The analysis among the NEET age sub-categories, in Romania's case, reveals that the NEET rate is bigger for the 20 to 24 and the 25 to 29 age groups.

These problems were generated by the national economic context with limited employment opportunities and also the weak correlation of the educational system and no policies regarding real world professional training. At UE level, in this category there are millions of young people, age 25 to 29, which represent 1 in 5 youths.

### 5. Europa 2020 – youth inclusion policies

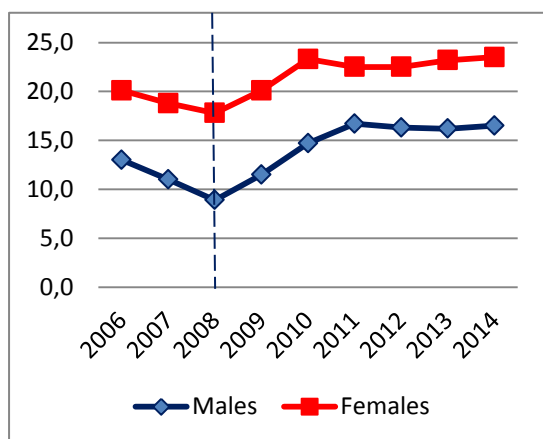
A global challenge is represented in keeping the young people on the labour market, in the educational system, and/or training programs.

In 2013 the UE Council adopted the *Council recommendation on establishing the a youth guarantee*. [6]

What does this really mean ?

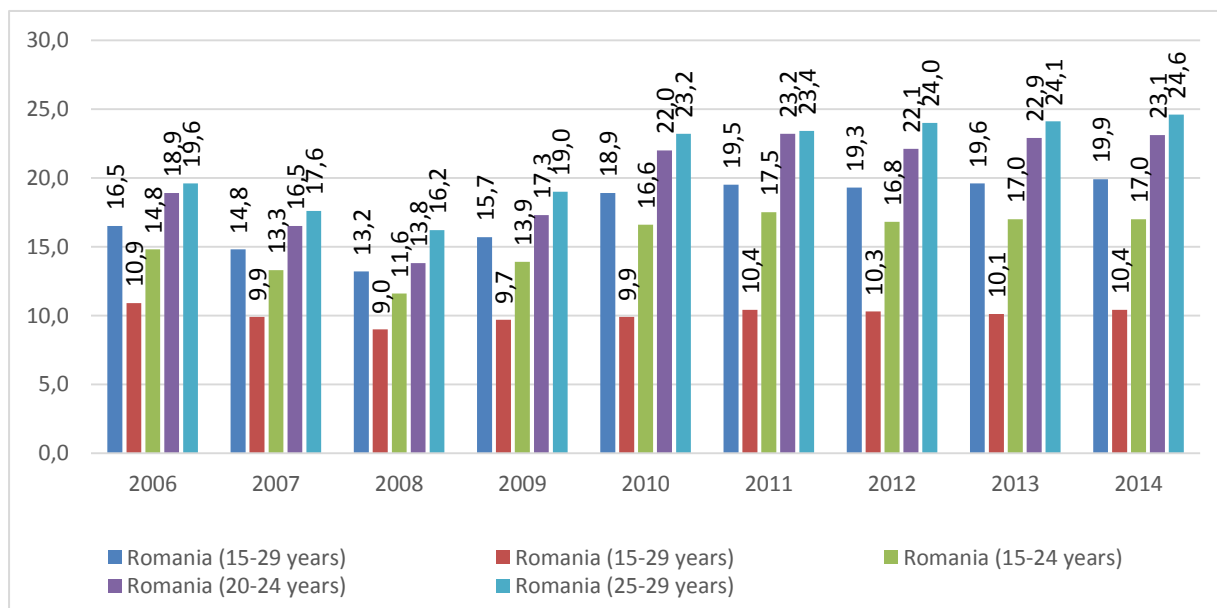
We are sure that, buried under the pretty words, “youth guarantee”, something else is hidden besides promises. Theoretically this recommendation seeks to reduce unemployment among the youths. In my opinion, a rate of unemployment among the youths ( up to 35 years of age ) bigger than 25% can be considered a disaster.

Figure 5 - NEET's gender gap, Romania



Source: Eurostat, own elaboration

Figure 6 – 2006-2014 % NEET's, Romania



Source: Eurostat, own elaboration

How can we avoid such a thing ? By offering high quality jobs and professional training. An alternative is continual education, integrating international approved programs.

At the same time the UE Council recommendation aligns itself to the objectives of the Europa 2020 strategy. [7]

And thus, the *youth guarantee* contributes to its 3 objectives:

- 75% of the population age 20 to 64 employment;
- under 10% rate of early school leaving;
- at least 20 million people saved from poverty and social exclusion.

## 6. Conclusions

The year 2014 was an important year concerning the adoption of policies and strategies for youths included in this category. Especially important is the fact that this programs concerned the youths born in the year 2000. Their becoming 14-year-olds made them the next target group for the inclusion policies.

A macro-economic as well as an individual challenge is represented by the inclusion of a large number of youths in education, the labour market and any other form of training.

At a national as well as global level, strategies are being developed against early school abandonment, tertiary education and perpetual education.

## 7. Acknowledgement

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## The Statute of Seafarers. European and International Regulations

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### Abstract

*The maritime activity, an important facet of the global economy, should be governed by rules that ensure the safety of shipping and of the people on board vessels. In this sense, the concerns of the international organizations consist in developing rules that ensure an appropriate training level to the seafarers. In addition, they also aim at standardizing the regulations applicable to the seafarers working on vessels, regardless of their flag.*

**Keywords:** transport, vessel, seafarer, flag, labor

**J.E.L. classification:** K 10-General

### 1. Introduction

The protection of the persons who work on board vessels has imposed finding solutions in order to assure employment relationships within a uniform legal framework. Compared with the persons who work in other sectors of the world economy, the personnel on board vessels assume other obligations and responsibilities. For this reason, it is often stated that these persons' obligations assumed under the contract of employment exceed the limits of private law [1]. The legal regime applicable to the persons on board vessels is circumscribed not only in national regulations but also in the uniform ones, permanently adapted to this activity, with significant importance to the world economy. Furthermore, the competitiveness on the global market requires the constant revision of the existing legislation and its alignment with the international standards.

### 2. The notion of seafarer

Traditionally, the organization of the maritime transport activity was based on the distinction between the ship's master and the other persons on board. In this respect, Article 2 of the Convention no.22/ 1926 on the employment of seamen, adopted in Geneva, at the Conference of the International Labor Organization, provides that the term “seaman” includes any person engaged or employed in any capacity on board any vessel, except the master.

The distinction made by the uniform legislation is justified in terms of the tasks that the commander has on a vessel. The master of the vessel includes every person having command and charge of a vessel. The master of the vessel is the person who assumes the technical and commercial voyage. The master is vested with authority over the other people on board the vessel, ensures discipline on board and has the power to investigate any action that could endanger the safety of the maritime voyage. At the same time, the master of the vessel has the competencies of a registrar. The originality of the status of master imposed thus a differentiated regulation of the powers that he/she is vested with (see, for example, the provisions which highlight the role of the vessel master, provided by art. 72-83 of G.O. no.42/1997 on maritime transport and inland waterways, republished in the Official Gazette no. 210/2004, as amended).

The notion of seaman, as defined by the Rome Convention, makes no distinction in relation to the professional training or qualification of the persons concerned. In this sense, the term seaman includes any person on board of any vessel who, on the shipowner's account, carries out any activity during the sea voyage. Nevertheless, a certain distinction is needed between these persons, in relation to the activity that each one carries, according to the nature of the

functions carried on board. Thus, the notion of seaman or seafarer may designate both the person exercising nautical functions, and the person performing other activities on board of the vessel. Bypassing the traditional terms of sailor or navigator, the provisions of the current legislation designate the persons on board of a vessel by the term crew, which encompasses both the seamen and the auxiliary staff (art. 53 of the G.O. no.42 / 1997 on maritime transport and inland waterways interior). The category of Romanian crew includes those persons who, depending on their professional training, can exercise nautical functions on board of a vessel.

### 3. The law applicable to seafarers

The shipping activity is essentially international. The position of seafarer may be held by persons of any nationality, the essential condition being related to their professional competences (art. 52 of G.O. no.42/ 1997).

In accordance with the international private law, the law applicable to seafarers is the law of the vessel's flag, unless the parties have chosen another law (art.2621, let. b, the Civil Code). The law of the vessel's flag shall be applied as territorial law. A solution to the same effect is also found in the European legislation, which provides that a citizen of a EU Member State, who carries out activities as an employed on a vessel flying the flag of another Member State, is subject to the law of that State (article 13, para. 2, let. c, the Regulation (EC) no. 1408/71 on the application of social security schemes to employed persons, to self-employed persons and to the members of their families moving within the Community, published in the Official Journal L149/1971/ Official Journal L28/1997). In applying the provisions of art. 13, paragraph 2, letter c of the Regulation (EEC) no. 1408/71, under the jurisdiction of the European Court of Justice [2], it is noteworthy that the flag law applies when the vessel flying the Community flag also operates outside the European Union. The fact that the person carries out his/her activities on a vessel flying the flag of a Member State and operating outside EU territory does not influence the applicable law. Regardless of the vessel's operating

place, the connection of the employment relationship with the European Union, the professional activity carried on a vessel registered in a Member State, is very important.

The international dimension of the issues involved in the recruitment and remuneration of seafarers has always been at the center of the issues tackled by international organizations. Meanwhile, their concerns focused on the performance of safe sea transport, enabling the protection of human lives and of the environment. Thus, under the aegis of the International Maritime Organization, in 1978, there was adopted the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (ratified by Romania by Law no.107/1992, published in the Official Gazette no. 258/ 1992, hereinafter the STCW Convention). The adoption of the STCW Convention meant the development of international uniform rules on the seafarers' training level, so that the sea transport would be carried out safely and protect the environment [3]. At the same time, there was sought the permanent adaptation of the professional level to the requirements of modern navigation techniques.

By ratifying the STCW Convention, the States have assumed the responsibility to harmonize their national legislation with the international standards on the seafarers' certification, education and training. In this regard, it is noted that Romania has always adapted its national legislation on the standards of seafarers' training, concurrently with the amendments to this Convention (amendments ratified by Romania by G.O. no.122/2000, published in the Official Gazette no. 430/2000 and by the Order of the Ministry of Transport no. 49/2012 published in the Official Gazette no. 122/2012).

Initially, the international patent and certification standards of seafarers have been transposed into the European law by the provisions of Directive 2001/25/EC (published in the Official Journal L136/2001, now repealed), which provided that the training of the seafarers from the Community should at least correspond to the requirements adopted internationally by the STCW Convention. In other words, in order to improve the shipping safety, it was appreciated that the minimum level of



training of the seafarers from the Member States should meet the international standards adopted by the STCW Convention [4]. Thus, by adopting the Directive 2001/25/EC, there was ensured the implementation of the European law provisions of the STCW Convention. At the same time, the Directive has given expression to the principle of the free movement of persons and services through the mutual recognition of the certificates of professional competence awarded in the EU Member.

The seafarers' professional qualification and its recognition in the European legislation were independently regulated by Directive 2005/36/EC (published in the Official Journal L255/2005). However, the provisions of Directive 2005/36/EC were not considered sufficient in order to guarantee an equal training level of the seafarers in different EU countries. This situation, coupled with the need that the level of knowledge and skills in the maritime community space should be consistent with the international norms and standards laid down by the STCW Convention, as amended, led to the repeal of Directive 2001/25/EC and to the adoption of a new regulation. Directive 2008/106/EC (published in the Official Journal L323/2008) was thus adopted; it states that the minimum level of training for seafarers, citizens of a EU Member State, should rely on the training standards adopted at the international level by the STCW Convention. In addition, regarding the recognition of the qualifications acquired in a third state-party, Directive 2008/106/EC provides that this recognition is possible when the qualification was obtained in a State Party to the STCW Convention, State which, under the assessment of the Maritime Safety Committee of the International Maritime Organization, complies with the provisions of the STCW Convention.

#### **4. The recruitment and employment of seafarers**

Due to the developments in international trade relations, in the field of maritime labor, the International Labor Organization has developed a series of international conventions governing various aspects regarding the work performed by crews. This process resulted in the

fragmentation of the legal rules applicable to the employment of seafarers.

Internally, in its original form, G.O. no.42/1997 provided for the employment of seafarers under the labor law, by an individual employment contract. The situation has changed following the ratification of the Maritime Labor uniform regulations (by G.O. no.16/2000, published in Official Gazette no.34/2000, Romania ratified a number of international conventions governing maritime labor). Therefore, at present, the legal rules governing the employment of seafarers have multiple sources. In this regard, the provisions of the national law provide that the seafarers' employment relationships shall be determined in accordance with the national legislation, with the agreements and conventions ratified by Romania and also under the collective labor contracts and the individual boarding contracts (art.69, G.O. no.42/1997).

In order to ensure the uniformity of the provisions governing the work in this area of special importance in the global economy, the International Labor Organization has proposed and developed a unique regulation of the labor relationships in the maritime field, i.e. the Maritime Labor Convention (adopted in 2006, in force since 2013, hereinafter the MLC Convention).

The process initiated by the International Labor Organization in 2001 aimed at developing a single and coherent instrument that ensures uniformity, and at updating the rules and principles contained in international labor regulations (see the Preamble of the MLC Convention). The MLC Convention is a true charter of the rights of the persons on board a maritime vessel, covering, in its five titles: the minimum requirements for seafarers to work on a ship (Title I of the MLC Convention); conditions of employment (Title II of the MLC Convention); accommodation, recreational facilities, food and catering (Title III of the MLC Convention); health protection, medical care, welfare and social security protection (Title IV of the MLC Convention); issues concerning the compliance and the enforcement of the provisions stipulated (Title V of the MLC Convention). Overall, this international legal instrument guarantees decent working and

living conditions on board vessels, regardless of their flag.

The need to unify the regulations concerning maritime labor was supported by the European authorities [5]. Thus, a special contribution in the drafting of the MLC Convention was brought by the European Commission, which had considered that the adoption of the minimum standards of maritime labor would be likely to eliminate the unfair competition in the recruitment and employment of seafarers. By Council Decision no.2007/431/EC (published in the Official Journal L161/2007), the EU member states were authorized to ratify the MLC Convention. In support of this decision, it was showed that the applicability of the provisions of the MLC Convention would help promote a decent standard of living and decent working conditions for seafarers. At the same time, it will ensure a fair competitive environment for all the operators in the maritime sector (Preamble to Decision 2007/431/EC).

Under the provisions of art. 138, paragraph 2 of the Treaty establishing the European Community, any Community action in the field of social policy is subject to the consultation with the social partners, namely with the employers and trade unions in the field. Thus, the final decision on the opportunity to align the European legislation in the field of maritime labor to the uniform standards established by the new provisions of the MLC Convention was taken after the European Commission had consulted the social partners (employers and trade unions in the field of maritime labor). The discussions between the social partners on the opportunity to align the European legislation with the requirements of the MLC Convention ended with the adoption of the Agreement concluded between the European Community Shipowners Association (ECSA) and the European Transport Workers' Federation (ETF) for ensuring equal labor conditions, in the maritime field, for Community seafarers.

In accordance with article 139 of the Treaty establishing the European Community, the European Commission took into consideration the agreement concluded by the social partners, and, consequently, established the obligation of Member States to provide the conditions necessary for the

ratification of the MLC. In this regard, there was adopted the Directive 2009/13/EC (published in the Official Journal L124/2009), which aligns the European legislation to the international standards required by the MLC Convention, by establishing common and fair conditions for all vessels and their staff.

## 5. Conclusion

The MLC Convention entered into force in 2013.

Romania plays an important role among the states that promote the Romanian seafarers on the international labor market. Thus, according to the national legislation, Romanian seafarers can also be employed on vessels flying the flag of other states. The employment may be done on their own or through authorized legal persons (art. 68 of G.O. no.42/1997). The training of Romanian seafarers, conducted in accordance with the international standards required by the STCW Convention, ensures their access to the international market for maritime labor. Regarding the working and living conditions, the Romanian seafarers employed on vessels flying the flag of Member States that have ratified the MLC Convention are under the protection of its provisions.

The fact that Romania has not ratified the MLC Convention yet could have some negative effects on the employment of seafarers on vessels flying the Romanian flag. These effects would be felt only if the living and working conditions provided by the Romanian law were not in accordance with the uniform standards imposed by the MLC Convention. However, in these conditions, the Romanian seafarers can rely on the principle of priority of the provisions of European law.

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## Tertiary ESP Courses, Internationalization and the EU Labor Market

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### Abstract

*Internationalization and employability represent two of the most important scopes as far as the European Commission’s reform for higher education is concerned.*

*The introductory section of the present paper defines these concepts and explains the importance they play in applying the reform to the Romanian tertiary education system.*

*Secondly, our study argues that, by means of ESP classes, foreign language instruction can help higher education accomplish both standards.*

*Finally, the last section provides a set of recommendations that may be used in order to improve students’ motivation by making them aware of the challenges posed by the European labor market.*

**Key words:** internationalization, education, labor market, ESP, integrated learning .

**J.E.L. Classification:** I 21

### 1. Introduction

The concept of internationalization covers an entire set of meanings and activities. One of the descriptions provided by scholars refers to it as “the process of integrating an international, intercultural or global dimension into the purpose, functions and delivery of postsecondary education” [1]. Another definition employed by OECD describes internationalization as “the totality of processes whose combined effect, planned or not, is to ensure the international dimension of higher education experience in universities and similar educational institutions” [2]. Not constituting a purpose in itself, internationalization represents a way to make sure that tertiary education is open to the growing need of cooperation in order to improve its quality and to answer the challenges at the global level [3]. As noted

by Deca et. all, internationalization of higher education is not a new concept for Romanian universities, however “ its (re)formulation as a comprehensive process, mainstreamed within the overall university strategy and activities is still underway” [4]. Romanian universities are mainly involved in international partnerships such as Erasmus, CEEPUS, Fulbright, DAAD, Francophone area related programs and various bilateral agreements. According to Deca, the main partner countries with which the Romanian government has signed bilateral agreements in order to provide scholarships for the academic year 2013–2014 are: Moldova, China, Armenia, Azerbaijan, Belgium, Egypt, Greece, India, Kazakhstan, Nigeria, Poland, Russia, Korea, Serbia and Turkmenistan (2015, p.134). In terms of student mobility statistics, it is important to highlight that UNESCO Institute of Statistics reported that in 2011–2012 there were approximately 26,000 Romanian students who chose to study in other countries and only 10,903 foreign students who came for an entire cycle to Romania. These figures clearly show that the number of incoming students for degree mobility is considerably lower than that of outgoing students for an entire study cycle. In this context, concludes Deca, Romania can be seen as “an exporting country in terms of student mobility” (137).

Apart from internationalization, another major role played in the European Commission's higher education reform strategy is employability, a concept that is defined by one of the Eurydice Briefs as “A combination of knowledge, competences and personal attributes that make graduates more likely to gain employment and progress during their career.” [5]

It is vital, therefore, to strengthen students’ employability and this has been identified as a priority not only by all public authorities but also by the EU 2020 agenda. Moreover, it is also important to be aware of

the fact that employability is a fundamental component of the widening participation agenda in tertiary education. Widening participation has to include methods warranting that most students complete their studies and have a successful transition to the labor market (Croiser 2014, p.15).

The two concepts presented in the previous lines—internationalization and employability—lead us to the main topic of the present paper: the connection between tertiary ESP course and the EU Labor Market is justified by the fact that, nowadays, a good command of English and the ability to use it represents a key competence, essential to increase the educational opportunities of young people and the professional mobility of adults.

## **2. Tertiary language courses in Romania**

Romanian universities should understand the need of foreign language instruction and should offer their students specialist language courses which correspond with the scope of their studies and in the long term give them an advantage over other university graduates on the job market.

However, English language courses at universities are very specific. On the one hand, they fall into the category of English for Specific Purposes, but on the other hand the design process does not follow the classic procedures recommended for ESP courses whose stages were listed by Hutchinson and Waters [6].

Students who enroll at a university are not only unaware of their language needs, but very often do not have a vision of what they would like to do in their future jobs, where they see themselves in 5 or 10 years' time and what opportunities studying at a university in the European Union member state opens for them. Therefore, it seems necessary to shift the heaviest burden of responsibility for structuring the language courses at universities onto the shoulders of the educators, but also to arouse in students the interest in learning foreign languages, to make them aware of the opportunities for developing language skills at and outside school for mobility purposes such as the Erasmus programs we mentioned earlier. In the long term, language skills will help future graduates with their career planning and

professional mobility on the global work market since insurance, accounting, and banking for example are part of the "enabling services" for which the multinational companies provide an infrastructure [7].

A problem which university language teachers often face is low student motivation to learn foreign languages. Freshmen usually understand the need of learning a foreign language for prospective professional purposes, they are interested in sitting international language exams and graduating from the university with a certificate that is recognized worldwide, or attending lectures, trainings and workshops delivered in a foreign language. Yet, in the language classroom most students seek an escape from other more career-oriented subjects and wish for more relaxing and fun activities. This can lead to a conflict of interests between them and the school authorities. Designing an ideal university foreign language course creates many problems for course designers and educators, since such courses fall into a separate category and are not identical with standard ESP courses for adult professionals.

First of all, at university, students usually do not participate in the selection of content of the foreign language syllabus which they follow during the course. They take English for Specific Purposes courses from the very beginning of their studies, though deep down they feel the need for developing their General English skills. They are aware of their deficiencies and wishes, but it is not often that course content is consulted with them. From the students' perspective studying ESP may seem boring and unattractive, especially at the beginning of their studies when the course content is too specialist and complicated.

A strictly specialist language course does not seem to be the best option for first year students due to their lack of work experience and often too low level of proficiency in English. Specialist business topics which are discussed in Business English textbooks may prove too difficult and distant for students and therefore may demotivate them and reduce their enthusiasm for language learning. Much better results could probably be achieved by combining Special English courses with General English – at least in the first semester. During this time students

would get a chance to settle down at university, level off deficiencies, and get a better idea of university requirements.

The role of the university language teacher should not be underestimated here. Many experienced ESP teachers, who have taught different groups of learners at a range of institutions, have never been trained at business before the beginning of their teaching careers and had to gain the knowledge of the subject matter themselves. For that reason they have a good understanding of the needs of students at initial stages of their business studies and eventually become successful course designers. They are also good advisors on what teaching materials to select as they have an overview of various textbooks which are currently available on the market and have an idea which of them will work with pre-experienced students, with students who are shy, with students who like discussions or with students who need more practice in writing or grammar. In the case of new publications it is, however, advisable to pilot test materials before adopting them as leading course books.

### **2.1 Towards Content and Language Integrated Learning**

ESP courses at universities, by definition, evolve towards not only language, but also content teaching. Therefore, the overall studies curriculum which the students participating in an English course have to follow must form the basis of the ESP course syllabus. Teachers responsible for course design have to get acquainted with the details of the curricula of the study programs which students in the language groups in question will pursue, information of this kind being easily obtained from the university website where studies curricula are uploaded.

Combining the content of the foreign language course with the content the students will study during classes and lectures in other subjects is vital. Students will be able to base on the knowledge they acquired earlier in the course of their studies and it will help avoid situations when they hear about some business or legal concepts for the first time during their English classes. It will help language teachers feel less intimidated, as – at later stages of the language course – they

can treat students as experts who can explain the intricacies of some specialist terms. The teachers will then fulfil the role of foreign language experts, while the students will use this language to deal with doubts concerning the subject matter. Otherwise, the ELP course will evolve into Introduction to Business classes during which the teacher’s role will be to teach Business in English and not English for Business.

The above element of the course design process is especially important in the case of English for Business Purposes (EBP) courses. Offering the students a strictly EBP course from the very beginning seems problematic. Secondary school graduates who start studying business usually have a very limited knowledge of economic concepts. It would be extremely difficult to talk to them in a foreign language about macro-economy or marketing when they have not gone through these topics in their native language yet. The situation may dramatically change for the better after the first few months of their Macro-economy course which is always offered at the beginning of economic studies. Therefore, it is advisable for teachers to spend the first semester of a university EBP course discussing general business topics related to economy, e.g. employment, types of business organizations, ethics or finance, before exposing students to specialist business English. The early stage of an EBP course should also be devoted to communication and writing skills, i.e. interpersonal skills, such as conversation, discussion, presentation, negotiation, persuasion or summarizing, or business writing, such as business letters, memos, CVs, which every student will need in his/her professional career after graduation. At later stages of the course, specific business topics and the language of business can be introduced, such as the language of company, as at that time students will not only have sufficient communication skills, but will also have already earned their credits for respective subjects in their native language. Therefore, course designers should always keep in mind that ESP/EBP courses at universities cannot function in isolation from the curricula of other subjects the students learn.

### **2.2 Study skills aspects in the ESP syllabus**

One of the needs that some of the students will be happy to satisfy, but may not realize at the beginning of their studies, is developing foreign language study skills which would help them successfully apply for and participate in student exchange programs.

A dictionary definition of ‘study skills’ quoted by Richard and Platt [8] explains the idea in a nutshell: abilities, techniques, and strategies which are used when reading, writing or listening for study purposes. For example, study skills needed by university students studying from English-language textbooks include: adjusting reading speeds according to the type of material being read, using a dictionary, guessing word meanings from context, interpreting graphs, diagrams and symbols, note-taking and summarizing.

It needs to be noticed that study skills will overlap in many aspects with professional (business) skills, so that offering a more academic-oriented syllabus at the beginning of a university language course is fully justified. For example, interpreting graphs and diagrams is often a problem area when teaching students presentation skills, while developing writing techniques will always pay off, no matter what purposes our students will be writing for: business, academic or legal ones. The skills of paragraphing, linking ideas or summarizing are a must of any tertiary level foreign language course.

A comprehensive list of study skills and activities may be long and detailed [9]. In practice, teachers and course designers should select the skills and activities which their students will most likely need during the course of studies either in their native country or abroad.

Academic / study skills might form a very solid grounding for the development of professional skills during the university foreign language course. They should obviously be provided in the form of classes rather than lectures, which is still sometimes the case. Such courses might also attract foreign students to study at Romanian universities, as students of all nationalities, and even native speakers will need help with them when they commence studying in a foreign language or at a university abroad.

University foreign language course design is a huge challenge for foreign language

teachers and course designers, since it is generally based on their experience, observation, detailed knowledge of the system of tertiary education and awareness of what students might need in the future. Tertiary language courses are usually modelled to fit into the university’s or faculty’s profile. Business schools will usually offer their students Business English courses, while law schools will propose English for Legal Purposes courses. However, these courses are very rarely designed pursuant to the results of the needs analysis which is the key element of ESP course design process.

### 2.3 Needs analysis

Identifying actual language needs of the first year students which theoretically helps design more attractive syllabuses for the tertiary language classroom in practice rarely provides any meaningful information. Namely, first year students are hardly ever aware of their future language needs. Most of them have never attended an ESP course before. They may be aware of what they do not know and what their weaknesses are, what activities they like participating in or what they dislike learning.

They may be conscious of some effective learning strategies which they adopt when learning the language, but – even though they can profile their predispositions, strengths and weaknesses – most of them will not be able to list their specific linguistic needs related to their future profession.

Therefore, a needs analysis conducted at the beginning of a language course at university should concentrate on the present and the learning needs of the learners. It should be designed to help the course designers gather some information about the learners themselves: their likes and dislikes, learning strategies, general English deficiencies and wishes, learning motivators and demotivators. This kind of analysis will concentrate on identifying factors which will affect the learning process.

At this stage of the course design process course designers may identify that what learners need is General English or English for Academic Purposes rather than a strictly ESP course. A present needs analysis will also concentrate on identifying technical

constraints such as the large size of groups, the small amount of time available, the lack of appropriate teaching materials or the teachers' lack of specialist training [10]. Nation and Macalister postulate that during a needs analysis the nature of the learners, the teachers and the teaching situation should be taken into consideration.

A positive consequence of carrying out a needs analysis will be the fact of involving learners in the syllabus negotiation process and letting them feel responsible for it

Some aspects of the present needs analysis which are significant in the case of ESP courses at universities, such as the identification of students' likes and dislikes concerning their present situation in the classroom and the learning process itself, can be successfully researched during the course by means of short questionnaires carried out at the end of the class with a few 'True / False' statements such as: I like working in groups; I like role-plays/acting out scenes/simulations; learning grammar is easy; I have been active today, etc. Such mini-questionnaires will provide the teacher with immediate feedback and are probably more reliable than the results on one big questionnaire administered before the beginning of the course when the students may not be aware of what the activities they are asked about look like.

### 3. Conclusions and recommendations

To conclude, as has been postulated earlier, ESP courses at universities should be synchronized with curricula of other subjects and should evolve into Business English courses as soon as students gain some knowledge of business matters at lectures and classes in their native language.

A highly motivating factor may be an examination which all students are required to sit at the end of the ESP course. Students generally approve of the idea of graduating from a university with an international certificate confirming their knowledge of professional English at a given level of proficiency. In the case of business skills, there is one Business English certificates which seems to be most popular at present: BEC (Business English Certificate) offered by University of Cambridge ESOL Examinations. Providing students with such

an opportunity by, for example, setting an examination center at a university, and encouraging them to sit certificate examinations will certainly benefit them not only in the form of an international certificate which can supplement their diplomas and CVs, but also as a huge motivator to learn.

Modern language materials can be of great assistance. Nowadays universities can run foreign language classes with the use of materials accompanied by CD ROMs with interactive workbooks, listening materials in mp3 format, vocabulary games and quizzes, films, etc. Students should be encouraged to learn individually as they usually have access to computer laboratories where they can practice foreign languages on companion websites designed specially to support the textbooks used in the classroom.

New technologies should not be ignored either. Most universities offer their teaching staff and students the possibility to include elements of e-learning in the process of teaching and learning. Such opportunities cannot be wasted. E-learning components or blended course give the students a possibility to systematize their knowledge by, for example, making notes from their classes in electronic form and uploading them to the online component of the course, expand their knowledge by offering them extra practice in the language studied during classes, and allowing them to publish their own work, such as presentations, online. By means of e-learning teachers can recommend to their students successful websites on which they can develop their knowledge of the language they study using the attractive form of games, quizzes, podcasts, films, online lectures, Wiki, blogs, etc. Foreign language teachers can also motivate their students to tandem learning by pairing them with students from other countries interested in learning the same foreign language and encouraging them to exchange e-mails or chat on Internet communicators or discussion forums.

Universities can also widen their offer of lectures in foreign languages for their students. Such courses would definitely attract many more foreigners to study in Romania, but could also give Romanian students extra opportunities of exposure to foreign languages at the academic level at their native universities. To sum up, language educators and foreign language course



designers should help students develop learner autonomy and aim at satisfying not only their possible target professional needs, but also at developing academic skills which will boost their linguistic confidence, make them believe in themselves and respond to the challenges of the European labor market.

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## The European Social Models Facing the Economic Crisis

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### Abstract

*European social models that emerged in Europe are answers to various problems faced by micro and macroeconomic activity. The austerity measures adopted by some of these models have led, in most cases, to a deepening of the economic recession. European social models which had an innovative investment plan, mainly Scandinavian model, managed to pass easily from the critical moments, increasing prosperity and living standards.*

*This paper provides an overview of how the European social models have attempted to revive their economies. The main hypothesis of the paper assumes that investments in education and workforce improvement led to the growth of the living standards in the Scandinavian model.*

**Keywords:** european social models, economic crisis, austerity.

**J.E.L.:** F20

### 1. Introduction

Given the economic difficulties facing the European zone, it is impetuous that economists researchers to outline a set of structural and functional elements for an economic social model sustainable and performance. In order to get answers to this challenge, in the first phase we have to identify all European social models.

Four different European models will be distinguished, each model representing a particular combination of economic governance, industrial relations, employment regimes, and welfare state policies: Nordic model, Europe's Centre Model, Southern model and Anglo-Saxon[1]. Countries in northern Europe have successfully implemented a system based on social

cohesion, focusing on family and education more efficient worldwide. Agreed or sometimes disputed, the Nordic model is undoubtedly unique.

States belonging to the Nordic model are characterized by stable economic growth, a strong trade union movement and a low level of corruption. In another order of ideas pattern is characterized by high levels of spending for social protection, generalized welfare system, extensive fiscal intervention in the labor market and strong unions, which provide a relatively homogeneous wage. The Scandinavian countries have successfully managed to obtain a high rate of employment and to remove labor market inequalities. States that belong to this model are Denmark, Sweden, and Norway.

Anglo-Saxon model is distinguished by the importance of the active measures to combat unemployment, as well as monetary transfers mainly oriented to the working population. The unions have less power, and disparities in wage levels are higher.

The Continental model is based on social security and pension systems, while the unions, although in declining, still remain strong. Efforts to redistribute the tax system are less pronounced than in the Scandinavian countries and the benefits have more moderate records and are closely linked to income. Countries that belong to this model are France, Germany, Belgium, Holland, Austria and Switzerland.

The Mediterranean model is found in Greece, Italy, Spain and Portugal. He has many common elements with the model in Continental Europe, especially in terms of the role assigned to the state as a centralized system. This is a model that also highlights the social state (for example, attaches great importance to the state pension), but its level of benefits is low. The Mediterranean model focuses on significant costs to the pension system, protection of jobs, and wages have a

relatively homogeneous structure obtained through collective bargaining.

## 2. European social models and the economic crisis

The first step in the analysis consists in extracting and comparing indicators GDP per capita and unemployment. The relevance of this analysis is that the results of these indicators are due to policies adopted during the economic crisis. In this way we can rank the European social economic models based on the performance results.

Table 1 Database

No.	Country	GDP per capita	Unemployment rate
1.	Sweden	126%	1.4%
2.	Denmark	125%	1.6%
3.	Norway	182%	0.7%
4.	Great Britain	126%	2.5%
5.	France	108%	3.8%
6.	Germany	120%	2.9%
7.	Belgium	119%	3.6%
8.	Netherland	134%	1.8%
9.	Austria	128%	1.2%
10.	Switzerland	155%	2%
11.	Spain	95%	9%
12.	Italy	102%	5%
13.	Portugal	79%	6.84%
14.	Greece	81%	10.2%

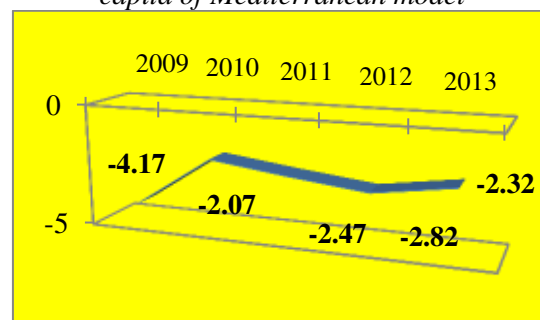
Source: Eurostat

The results of the indicator GDP per capita (the volume index of GDP per capita in Purchasing Power Standards is expressed in relation to the European Union EU28 average set to equal 100) expresses the average of the period 2009-2013. It is obvious that the Nordic model during the economic crisis has maintained its position in the hierarchy of performance, recording an average indicator for the whole population model of 144%. The models with similar performance are the Anglo-Saxon and Continental, which recorded a result of 126% and respectively 127%.

The Mediterranean recorded a significant

decline in gross domestic product per capita, with an average of 89%.

Figure 1 The variation of GDP per capita of Mediterranean model



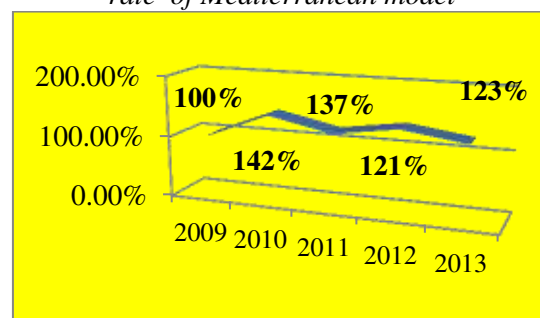
Source: Eurostat

The next step of the study is to analyze the evolution of the indicator unemployment rate. As for GDP per capita, the values shown in Table 1 expresses the average of the period 2009-2013 for each of them.

As can be seen in Table 1 Scandinavian model recorded the lowest values in terms of unemployment, namely the average indicator for the whole population is 1.2%, far below the results of the other models. The performance of this model is due to the efficient economic policies.

The Anglo-Saxon and Continental models have roughly the same results, but does not approach the performance of the Nordic model, namely 2.5% and respectively 2.55%. The Continental model, just as in the case of the indicator GDP per capita, is proving to be inefficient in the management of unemployment. Between 2009 - 2013 the unemployment rate increased significantly (Figure 2) recording at the end a mean value of 7.15% for the entire population.

Figure 2 The variation of unemployment rate of Mediterranean model



Source: Eurostat

The low achievement of Mediterranean model is due to austerity measures adopted

by the governments of each state. Another relevant issue is that most countries belonging to this model faces serious problems regarding sovereign debt crisis. Since early 2010, countries such as Greece, Spain or Italy have faced with a major debt crisis. The governments of these countries have accumulated unsustainable levels of sovereign debt appealing to other European countries and the IMF, in order to avoid bankruptcy.

Reforms have included a reduction in total expenditure. "Weight" tax reform program has failed on Greek taxpayers, one-third of public sector savings yield by lowering wages, pensions and social transfers.[2] Such measures have been adopted in all states of Mediterranean model, with serious consequences to macro and microeconomic indicators.

Countries belonging to the continental model, such as Germany, France, Belgium, Netherlands and Austria, have built their exit plan based on economic incentives mechanism. Tax reductions and monetary easing maintained micro and macroeconomic results at a sustainable level.

Contradicting the Mediterranean model results are those obtained by Britain, since both models have implemented an austerity plan. The British government has decided to cut budget spending, increase taxes, including VAT, and additional tax the banks. Countercyclical measures adopted by the Anglo-Saxon proved to be effective if we analyze the results of the indicators GDP per capita and unemployment rate achieved during the period 2009-2013.

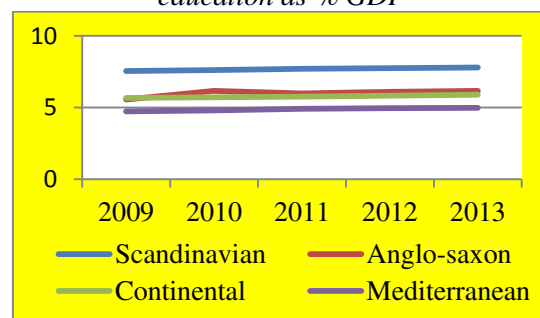
Maintaining a high level of competitiveness and living standards is due to the large investments in education, health and social transfers. The private sector very competitive and very high productivity rely on the security offered by state to employees in health and education. Denmark and Sweden are the two countries holding the most advanced economies in the world, in terms of information technology. The economic crisis hasn't had a high negative effect on the economy of Scandinavian model because growth over time has proven to be sustainable.

### 3. The Scandinavian model - a success of welfare

Countries in northern Europe have successfully implemented a system based on social cohesion, focusing on family and education more efficient worldwide. Agreed and sometimes disputed, the Nordic model is undoubtedly unique.

A healthy economic growth based on investment in the education of individuals, more efficient health care system, improving the mechanism of social transfers and prudence in the banking sector have led to a strong and sustainable economy. In this way the economic crisis that erupted in 2008 haven't had a significant effect on the states that belong to this model.

Figure 3 Total public expenditure on education as % GDP



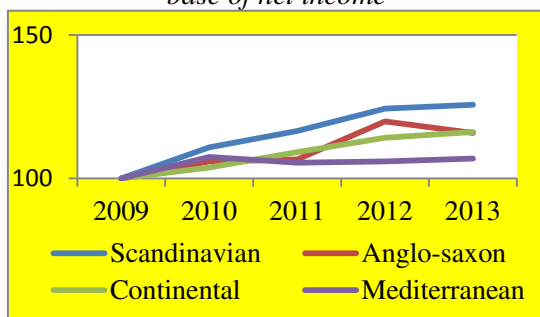
Source: Eurostat

As can be seen the total education expenditure to gross domestic product are much higher in the Scandinavian model than the other areas, namely the average difference between the values recorded by the Scandinavian model and the Anglo-Saxon is 2%. Such policy has led to high performance in the Scandinavian economies. The last position in terms of education expenditure is occupied by Mediterranean model that records values with 3% lower than the Nordic model. Such a measure involving reduced expenditure on education has major negative consequences on the economies of the Mediterranean area, fact noted in the analysis of indicators of gross domestic product per capita and unemployment rate.

Another indicator that reveals the efficiency of policies adopted by the Scandinavian model during the crisis is the average net income of the population. As can

be observed the Nordic model has the highest average of net income growth in the period 2009 - 2013. The average value of the indicator increased by 119.33% for the Nordic model, 112.08 for Anglo-Saxon model, by 110.82% for the continental, and respectively 106.41% for Mediterranean model. The Nordic states are undeniable efficient, because they recorded the highest values in all the variables analyzed.

Figure 4 The relative evolution with fixed base of net income



Source: Eurostat

Scandinavian model proved its efficiency for many years before the outbreak of the economic crisis.

Figure 5 Typology of European social models

		Efficiency	
		Low	High
Equity	High	Continental	Nordic
	Low	Mediterranean	Anglo-saxon

Source: Andre Sapir (2006)

This suggests that both Nordic and Anglo-Saxon models are sustainable, while Continental and Mediterranean models are not and must be reformed in the direction of greater efficiency by reducing disincentives to work and to grow[3].

#### 4. Conclusions

Given the analysis and results we can say that the first two models, namely the Scandinavian and Anglo-Saxon are sustainable and efficient, while continental and Mediterranean model had low efficiency and requires fundamental changes. The study

presents an overview of the hierarchy of models, namely the first position is occupied by the Scandinavian model, the second by the Anglo-Saxon model, the third of the Continental model and the last by Mediterranean model.

The information extracted from the analysis are useful because it indicates the direction to be taken into account to optimize the "welfare state" of the other European social models. In this regard should be considered restructuring and efficiency of education, improving workforce, labor market and social protection development, only for people who can not work, nominal wage growth, and hence the real one. Only this way can lead to a truly sustainable social welfare state.

The construction of a European social economic model becomes impetuous necessary because in recent years the middle class of society has eroded significantly. Now, more than ever, the authorities need to develop a viable strategy to contain structural and functional elements of a European social economic model. Based on the 4 models specialists must find socio-economic policy mix that can build a strong and sustainable economy. The foundation of such a model should be composed of educational segment and the specialization of the workforce. The economy is governed by individuals, and if they have a powerful foundation of education, economic growth will be real and enduring.

I conclude this paper by pointing out that the Scandinavian model's success should be a starting point for other models. The measures must be adapted to the specific individual character of each area separately, so that the final results that are obtained must be at least equal to those of the Nordic model.

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## **Pink Collar Crime vs. White Collar Crime Overview on the Specific Features Related to the Antisocial Behavior of Women**

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### **Abstract**

*In attempting to define and describe the antisocial behavior, the center of interest is usually placed, in observing its way of manifestation. This comprise a wide range of deviations from the norm, knowingly breach of public order and behavioral acts wich are usually directed against other members of society .*

*Whether it is a simple manifestation of irregular behavior or committing acts which seriously violates social order and safety, anti-social behaviors are punished first by considering them as "outside " normality.*

*In this context the present work aims to validate the fact that, even though similarities may exist in the way women and men commit offences the antisocial behavior of women meets the criteria to be classified as a specific form of manifestation.*

*The interest in treating this particular subject comes from addressing economic and financial crime, generally seen as being incompatible with women.*

**Key words:** antisocial behaviour, women, crime, precursors, qualitative analysis

**J.E.L:** Z13

### **1. Introduction**

According Geert Hofstede's theory [1], we can make a clear distinction between male and female even regarding the society, seen as a whole.

We are dealing with a "male-type society" when it is driven by values such as self-confidence, performance, success and

competition. That is why the common sense says that in the most societies " masculinity" is associated with crime. Among those sanctioned by society, the number of men is considerably higher than that of women punished.

Yet current social developments indicate that women are becoming increasingly present in all types of crime.

This raises the question: is there a specific in the crimes committed by women, given by the gender difference? And referring particularly to these theme ", which are the main factors that could cause such a manifestation of antisocial behavior ?

### **2. Pink Collar Crime vs. White Collar Crime – gender related perspective**

A certain period of time it was considered that women who worked in the economic and financial field, can only commit certain types of offenses favored by the positions they occupied. These positions were described by less power in comparison with the position occupied by men.

Thus arose the concept of „Pink Collar Crime” described as check kiting and book-keeping fraud, considered low level crimes, compared to „White Collar Crimes” suitable to be committed only by men wich occupied higher rank position.

Nowadays, with women penetrating all economic and financial areas, the perspectives have changed. Freda Adler [2] Professor Emeritus at Rutgers University, criminologist and educator, supports the idea of unification of the gender differences in this area, postulating that: ”Women have broken the glass-ceiling because the doors

have been opened. They use the same tactics as men. These are human characteristics not male or female, they are not gender issues in science. Women are making a lot of money now and it will only increase as their opportunity increases. They too will take advantage of the opportunity to go further cut corners, make more money as it presents itself, legal and illegal. They are driven by the same factors and motivations as men."

In order to have an overview of this topic, below we review the main factors that can influence antisocial behavior.

### **3. Specific factors that influence the manifestation of anti-social behavior**

#### **a. Moral development factor**

Theorists correlate cognitive developmental stages (Piaget) with concomitant stages covering similar moral development. For starters rules are set by the "strong" individuals near to the young individual. In the early stages of development children constantly seeking to gain pleasure and at the same time trying to avoid punishment. At this stage of development children take into account the needs of others only to the extent that those needs helps them to meet their own needs. In the following period, when the child begins to conform to social norms, it begins to show respect for those rights and recommendations represent "authority" in his life it seeks approval authority. As the child gets older and strengthened the moral judgment is motivated by respect for legally established rules and by understanding that these rules are for all to benefit from them. Going through these stages universal principles are internalized in the same way even the individual is a girls or a boy.

#### **b. Social learning factor**

A child learns how to behave according to the parents' reactions to the way he obeys to norms. The system of rewards and penalties indicates, at the beginning of life, what is and what is not accepted as proper behavior. Permanent assignment of rewards and penalties lead to internalize rules and regulations. Using this system children begin to behave as moral and legal codes prescribe.

Every society educates his own members, (either we are talking about girls or boys) in its own spiritual rules to ensure proper functioning.

It is not enough just to be part of a social organization, you must also be fully integrated into the organization.

Numerous studies show that offenders were treated differently by their parents towards young non-offenders. Through education, individual acquires the knowledge to adapt and integrate. All these aspects together, sustain the idea that social learning is related to and influences the criminal behavior of both genders.

There are many factors that influence an individual's destiny and various studies and theoretical models indicate that one factor is impossible to determine the destiny of an individual, so that it becomes criminal.

### **4. Connotations of the term „antisocial” - qualitative study**

Antisocial behavior is described as a type of behavior that seriously deviate from the norms of society and is a subset of negative behavior .

Given that each of these areas of manifestation of human behavior are described differently in everyday language, the investigation of „antisocial” we try to emphasize some definitions, obtained in the research process. In this respect we will proceed to inventory and analyze a number of terms - behavioral descriptors - which called / defined generally by a single word, specific behavioral manifestation .

Starting with the model provided by the William J. Goode and Paul K. Hatt (1952) [3], on the content determination of a notion, from sociological perspective, we performed an analysis of the significance items for the "antisocial" concept, in order to establish the notion of generalization of the term. Specifically to establish precursors or predetermined factors in the emergence of antisocial behavior we asked groups of subjects to provide concepts related to "antisocial" term and notion associated to "women's antisocial behavior" .

Using the evocation technique, also known as free association technique, after the experimental model for measuring ethical

stereotypes [4], by extrapolating to the field of Antisocial Behaviour, on the grounds that the persons who are labeled as antisocial represent a minority, subject to the potential social exclusion, the group of subjects was investigated by asking to write the word "antisocial" (constituting the inductor or stimulus) and record the first five words (answers) that come to mind in connection with this term, passing that way through the first stage of content analysis by reviewing stereotypes and connotations of the term "antisocial". After recalling the terms, subjects were asked to rank them, ordering them according to their importance / representativeness. The value 1 of an element represents the strongest association between the word evoked the term "antisocial" and the value 5 worst. The semantic units thus obtained were entered into a database and processed, after the identical words, synonyms, or words of similar semantic were eliminated, being condensed by assimilation, in terms of a higher level of generality. In the next stage, the data were statistically processed and were ranked by the criteria of the occurrence frequency, trying to do a classification of units of meaning, in order to determine specific areas to contain.

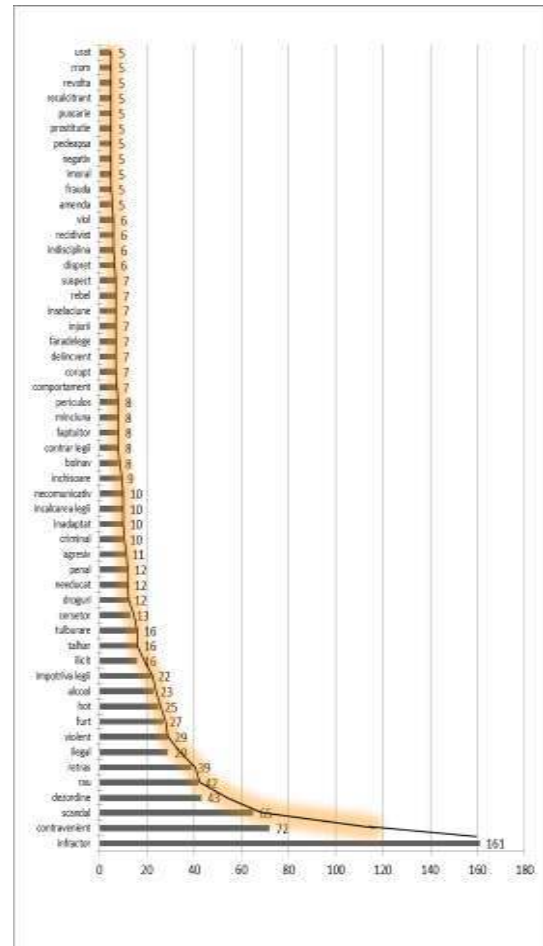
In doing so, two groups of subjects were included in the research, a total of 333 people, aged between 23 and 55 years, mostly male, who work in a public institution responsible for ensuring public order and whose main professional goal, is the prevention and punishment of deviations from social norms. Subjects raised in total 1542 number of terms, associated to the notion of "antisocial".

First batch of 189 people, was asked to write the term "antisocial" and the top 5 things that spring to mind on this notion. After completing this task, they were asked to rank the resulting terms, depending on their representativeness for the subject of evocation, indicating to them that the value 1 indicates the strongest association between the word evoked the notion of antisocial and 5 the lowest.

There were collected 902 terms, associated to the word "antisocial", terms which were placed separately in a database and subjected to statistical calculation to analyze their characteristics. SPSS/

frequencies procedure was used to determine the number of occurrences of the term in the evocation and were taken into account, according to the rules of content analysis, only terms with frequency > 5 results were shown in Fig. 1

Figura 1. Evoked notions for the term "antisocial"



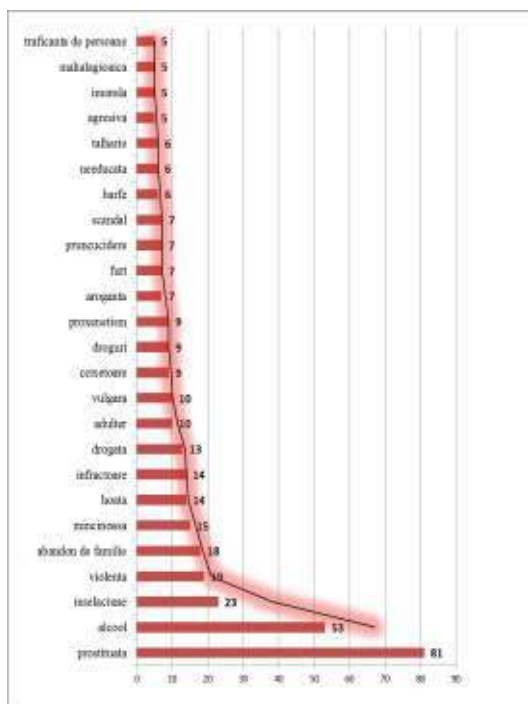
Source: data obtained from own research

The second batch, consisting of 144 subjects was required to evoke five terms that describe "anti-social behavior exhibited by women" and also to prioritize the criterion mentioned above.

This group tasked with describing anti-social behavior exhibited by women evoked 640 words, the phrase "anti-social behavior exhibited by women", giving meaning and direction to the evocation. The terms thus obtained were also subjected to frequency analysis to notice the number of occurrences of terms associated to the notion.

Figura 2. Evoked notions for the phrase "anti-social behavior exhibited by women"





Source: data obtained from own research

Comparing the two evocation situations, and taking into account that although the subject samples corresponding to each of them are different in numbers, the results are representative. It can be seen that there are major differences in the description of gender behaviors, which leads to the conclusion that the expression of antisocial behavior differs for female gender, by the male mode of expression.

**Table 1** - *Frequencies of the terms investigated*

<b>General Antisocial Behavior</b>	Occurrence Frequency	<b>Antisocial Behavior of Women</b>	Occurrence Frequency
felon	<b>161</b>	prostitute	<b>81</b>
offender	<b>72</b>	alcohol	<b>53</b>
scandal	<b>65</b>	fraud	<b>23</b>
disorder	<b>43</b>	violence	<b>19</b>
worse	<b>42</b>	family abandon	<b>18</b>
retired	<b>39</b>	false	<b>15</b>
illegal	<b>29</b>	thief	<b>14</b>
violent	<b>29</b>	offenders	<b>14</b>
theft	<b>27</b>	junkie	<b>13</b>
thief	<b>25</b>	adultery	<b>10</b>
alcohol	<b>23</b>	vulgar	<b>10</b>

Source: data obtained from own research

As it can be seen from the table above (Table 1), taking into account how arbitrarily the first 10 positions of each of the two hierarchies, which we will call "general hierarchy" and "feminine hierarchy, only four factors are common to both situations, ranking in the hierarchy different positions, specific to each gender.

While in the antisocial behavior of women, "alcohol" ranks second in the overall hierarchy, it ranks last. Surprising is the position of the term „vilolent wich in the general hierarchy occupies the last places, while in the female hierarchy is in the top five positions, although the current violence is rather a manifestation of men behavior than women.

Also the term "offender" is found at the beginning in the overall hierarchy and the latest positions in the "feminine" one, namely theft, matched the second smallest of the general hierarchy and mid hierarchy for feminine although the current number of males who commit such acts is exponentially greater than that of female.

Analysis of data obtained by comparing the frequency of terms and position in the hierarchy generated on this basis, the reporting and the sample size is rather empirical, so for scientific rigor and meeting the terms evoked by assimilation, so the description of the antisocial behavior in general, and in the case of antisocial behavior exhibited by women, were subjected to further analysis and content analysis.

In the second part of evocative approach , subjects were asked to rank terms. The lists of words thus obtained were subject to processing using EVOC software, which performs both prototype analysis of the terms, in order to identify core elements by calculating the frequency and rank/order of occurrence of terms obtained as a result of listing, inductively generated by a word ( eg. "antisocia" ) and analysis of thematic categories, in order to locate items in the center of the representation, which consists in grouping terms that are semantically close in by statistical analysis of these categories.

The analysis of the antisocial behavior evoked in general terms resulted that there are 3 terms which may constitute key areas in investigating anti-social behavior, which are reflected in the ranking carried out by

frequency of occurrence.

The first position is occupied by the term "offender". Another central element is the word "illegal" that although the frequency is found in the second part of the list of terms evoked, expressed in terms of rank it is a central term. The third term is the word „scandal”.

Regarding the antisocial behavior exhibited by women, the analysis revealed a unique central term describing a behavioral manifestations, decided, including in terms of cultural history, as belonging to the female gender. We are talking "prostitution" considered the oldest "profession" practiced by women.

## 5. Conclusions

It seems that even though the scientific literature and the researches sustain that women offender use the same tactics as men, an that the predisposition to crime in some individuals is a general human characteristic not male or female. Eventhough nowadays women are driven by the same factors and motivations as men and they are committing „Pink Collar Crimes” or the more sophisticated „White Collar Crimes”, the public perception regarding the antisocial behavior of women limits the feminine gender to the practice of „prostitution”. That makes the things more easy for the female offender, because we wouldn't expect complicated crime issues from women.

The role that women play today in society and particularly for this research, in the "crime scene", makes them far more dangerous than men offenders because it is likely to apply the benefit of the doubt to a woman than to a men, even if the circumstances and position from wich the crime is committed is similar.

So we can conclude that even if there are specific particularities in the way that women became and act as offenders, generally "There is no “masculinization.” [5] regarding the offence! It can be easily committed by any gender, in the same circumstances and at any given time by each one of the human genders.

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## Romanian Public External Audit Integration in the European Union Acquis

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### Abstract :

*Building strategies for integrating of the Romanian public audit in the European acquis should be based on a good knowledge and understanding of the field of audit, on changing the existing environment and the opportunities presented in a clear analysis. Using european audit standards in public audit provides an opportunity to discover problems, deficiencies and weaknesses that are encountered in carrying out an activity . The main purpose of evaluating an activity is to identify possible mistakes that were made in the conduct of business or to identify the risks that may arise if some irregularities are from the previous period evaluated. Article highlights the benefits of public audit integration into the european acquis, the strategic development of public audit, such as reducing the time of analysis and reporting of repetitive activities , increasing the capacity of communication and exchange of information, increasing the quality of public audit.*

**Keywords:** european integration, strategies, audit standards

**JEL classification:** M42, M48, M14

### 1.Introduction

In the context of Romania's European Union harmonization with the acquis communautaire is the adoption assembly of rights and obligations by all Member States , the legal rules governing the activity of the European Communities EU institutions

, actions and policies . The Treaty on the Functioning of the European Union , European Court of Auditors and national audit institutions of the Member States shall cooperate in a spirit of trust while respecting the independence of each institution. Cooperation between the Supreme Audit Institutions (SAIs) of the EU Member States and the Court dates back to the early years of the Court , in 1977 , and has intensified over the years . Currently Eurpeana Court of Auditors cooperate actively with the Supreme Audit Institutions of the EU Member States within the Contact Committee . The public audit main evaluation criterion is the existence of the legal development of public audit function and the mechanism of ex ante control in all public institutions and ensure functional independence of auditors.

### 2. Integration in the European acquis

The strategic objectives of the Romanian Court of Accounts, taking a closer European integration and performance management and proper use of public funds , the protection of the Romanian state and the European community as an independent institution strengthening institutional capacity , professional and credible public control and external audit public funds , ensuring harmonization with international standards adopted by the International Organization of Supreme

Audit Institutions ( INTOSAI) and the European Guidelines for their implementation , the implementation of harmonized legislative framework in the field of public audit , as the evolution of international good practice [1].

In order to achieve strategic objectives, the mission of the Romanian Court of Accounts to ensure exercising control over the formation, administration and utilization of the financial resources of the state and the public sector, providing Parliament, public authorities and institutions and taxpayers reports use and manage their permanent conditions of economy, efficiency and effectiveness. The audit public funds management is done by examining the legality compliance, economy, efficiency and effectiveness of their use or by examining connections between them. In EU countries, the responsibility for auditing state institutions receiving public funds, and which makes investments, funded contracts objectives, rests with the Supreme Audit Institution. European Court of Auditors is the external auditor of the European Union and has the skills that have been set by the Treaty, providing for examining the accounts of all revenue and expenditure of the European Union and all bodies established by it, on condition of not being otherwise, providing examination legality and regularity of EU revenue and expenditure and sound financial management, that the funds will be used in a manner economical, efficient and effective [2].

ECA provides quality services in the field of public audit and control in order to obtain and provide information on the legality real and objective , efficient and transparent use of public funds and those representing the external financing ; to promote accountability , fairness and best practice in specific activities related to public funds ; the

improvement of mechanisms of control and external public audit in order to adapt the legal framework and harmonization with generally accepted international standards ; following the implementation of and compliance in the public spending, to promote a high level of professionalism and public audit in Romania harmonization with European and international good practices .

### **3. Harmonization of public external audit in Romania with EUROSAI standards**

The purpose of the study referred to the need to harmonize public audit and application of international auditing standards in Romania . Analysis of the harmonization process audit to European Union standards was determined by the timeliness and importance of the role that it has public external audit in the EU. The research results show that the EU is making significant efforts to harmonize public audit activity in the long term ..

### **4. Auditul public extern din Romania**

Court of Accounts, as a supreme audit institution external public , whose main task checking the formation, administration and use of financial resources of state and public sector and on the management of public and private patrimony of the state and units administrative -territorial units.

External audit is the specific activity carried out by the Court on the basis of its own audit standards harmonized with European standards on auditing. External audit, depending on the objectives, financial audit, performance audit and compliance audit auditor may use a variety of methods and techniques of audit procedures for collecting and analyzing information, documents, databases, audit evidence such as surveys, interviews, questionnaires,

direct observation and verification of written documents. In choosing these methods, based on auditing standards, professional judgment and experience in the field, auditors must follow the general and specific objectives of the audit depending on the activity of each public entity. It must establish clear methodology, solid and practical to obtain audit evidence sufficient, relevant and reliable so that they can be made with reasonable assurance reviews.

Financial audit is an activity which seeks to whether the financial statements are complete, accurate and in compliance with laws and regulations and whether the administration of the public and private patrimony of the state and territorial administrative units and the implementation of revenue and expenditure of the audited entity They are consistent with the goals, objectives and tasks set out in regulations by which it was established for this purpose while providing an opinion.

According to Law no . 94/1992 , art. 2 performance audit is an independent assessment of how a public entity , a program, project , process or activity works from the viewpoints of efficiency , economy and effectiveness [3].

The performance audit uses different methodologies to analyze more data, to collect findings from different sources and linking qualitative and quantitative data.

In different phases of the audit and for different purposes , different methodological approaches can be used so as to achieve their goals . Qualitative techniques are useful in the initial stages of audit to identify the significant issues to formulate the assumptions that underlie the findings.

Quantitative analysis , numerical data is to examine , as a metota effective for developing evidence-based conclusions . Such analysis added value

of audit work , because it enables a clear quantification of the costs, benefits and performance

## **5. International Organisation of Supreme Audit Institutions – INTOSAI**

Court Audit Policy is to conduct audits in accordance with International Auditing Standards and Codes of Ethics of IFAC and INTOSAI , insofar as they are applicable in the context of the European Union. Made by INTOSAI ISSAIs relevant to the reliability of the accounts and audits by analogy audits on compliance with applicable laws and regulations [4].

Financial audits and compliance audits involve testing the effectiveness of internal control systems . The tests may be seeking systems reliability of the accounts or preventing or detecting and correcting deficiencies in the legality and regularity of revenue and expenditure.

Financial audits and compliance audits conducted by the European Court consisting of a process of collecting, analyzing updated information from different sources , and finally to make decisions and formulate conclusions and , where necessary, to issue an audit opinion based on a proper professional judgment . The stages of planning , examination and reporting are presented sequentially in auditing standards , but the whole process is iterative so that the auditor can perform some of the procedures concurrently or in some stage of the process, to a step back and review previously on the basis of new information.

According to ISSAI 3000 paragraph 1.1 , performance audit is an independent and objective examination of the extent to which a program or activity of a public entity operate efficiently and effectively in compliance economy, in order to make improvements [5].

The need for new approaches and concepts assimilation of European public external audit has led to a new legislation which generally contains the basic elements of framing the Court of Auditors in the category of supreme audit institutions , organized as " Court of Auditors driving whose principle is based on collegiality of the members appointed by Parliament.

Assuming the Court of Auditors , the supreme audit institution , the role that lies in the accountability cycle contributes to sound financial management of public funds and public property , to provide Parliament respectively , deliberative public authorities of territorial administrative units reports containing information on their use and management in accordance with the principles of legality , regularity, economy , efficiency and effectiveness.

Regulation distinctly Court of Auditors independence in terms of functional and organizational independence , independence of the members and staff of the Court , the financial independence of the Court, to ascertain the formation , administration and use of financial resources of the State and public sector and on the management of public and private patrimony of state and administrative-territorial units.

In accordance with the Declaration of Lima and the European Guidelines for the application of INTOSAI standards and other relevant auditing standards for the public sector developed by IFAC and accepted for application in the European Union, the main task of the Court of Auditors in the public audit public , is developing standards , audit manuals and guides on specific areas containing detailed procedures for evaluation of management and internal control of the audited entities . The auditors prepare audit reports containing mainly

financiar impact findings , findings on the results of the assessment of management systems and internal controls of the audited entity and recommendations deficiencies found and improvement activities.

The Court provide better information to Parliament and the deliberative authorities of the administrative-territorial units by sending the relevant reports will be made public, and at the same time establishes the obligation of the audited entity's management to take action to recover damages found by the auditors Court, failure to do so constitutes an offense. Operation of the Court of Auditors Audit Authority for the funds granted to Romania by the European Union and SAPARD programs 1SPA and for the funds to be granted in the post -accession body established to fulfill obligations assumed by Romania in the process of European integration.

The Treaty of Accession " Chapter 28 financial -Control " adopted by the Romanian Government meeting of 19 June 2003 , "The European Union calls on Romania to follow closely all future changes in the financial system in the European Union to adapt to it own devices , whenever needed. It would be considered control modules set up by the United States in cooperation with the Commission under the Joint Audit initiative . to improve national systems for establishing and managing the European Union's own resources".

ISSAI 100 established the fundamental principles of pubic external audit provides fundamental principles for public sector auditing in general , and are defined and approved by ISSAIs.

ISSAI 300 - Fundamentals of performance audit is based and develops the fundamental principles of ISSAI 300 should be read and understood in connection with the

ISSAI 100, which also applies to the performance audit .

## 6. Conclusion

- International and European approach . The Guidelines is presented in the INTOSAI [5 ] classification system as ISSAIs , starting with ISSAI 1000 to ISSAI 2999. The three last positions in the ISSAI number Corresponding indicated the number of the ISA ( for example , the ISSAI 1800 ISA 800 and includes the practice Note for ISA 800).

ISSAI 1000 – General INTOSAI Financial Audit Introduction to the main purpose is to Provide Guidelines INTOSAI members with a comprehensive set of guidelines for the audit of financial statements of public sector intension.

ISSAI 100 presents the definition of public sector auditing and provides the essential concepts , elements and Principles That Apply to all public sector Audits . ISSAI 100 sets out the elements of public sector auditing as well as the Principles That Apply to public sector auditing , both General Principles related to the audit year , and the Principles related to the different phases of the audit process. In this way provides the basis ISSAI 100 Also for the specific Principles and concepts contained in ISSAIs That is 200, 300 and 400 on financial , performance and compliance auditing . INTOSAI international auditing standards stipulate that public audit includes examining legality, compliance , economy, efficiency and effectiveness of the management of administrative activities of public entities , in accordance with good management principles and practices , and addressing the weaknesses identified. Efficient use of financial resources , human and otherwise, including examination of information systems

and regulations on measuring and monitoring development performance indicators and examining the procedures used by auditees to minimize the risks [6].

- The national approach.

In Romania , the Court of Accounts defines public external audit as specific audit work performed by the Court which contain mainly , compliance audit , financial audit and performance audit . In the Regulation on the organization of specific activities of the Court of Auditors and the documents resulting from these activities is defined as the financial audit work which seeks to whether the financial statements are complete, accurate and in compliance with laws and regulations in force , providing in this opinion.

External audit of the National Audit Standards , Regulations and audit manuals specific activity is carried out by the Court of Auditors External audit include: financial audit , performance audit and compliance audit.

Harmonisation with the EU acquis requires develop their own strategies and tracking the fulfilment of the objectives set out in their plans, organization of regular checks on the economic and financial activity, as well as performance management and research, in order to improve them, bin organization marketing, in order to increase the degree of applicability of the research, the registration of research results in the special register of evidence, preparation, approval and implementation of accounting policies to ensure the efficient operation of an accounting system capable of preventing possible risks that may arise in carrying out the work and to provide timely, accurate information decision makers, development, approval and implementation of a "quick finance", in which to present the types of supporting documents for the grant of advances, reimbursement, conditions that

documents must meet in order to be considered eligible as well as the method of calculating the input value of the research results and their recording in the accounts; preparation, approval and implementation of a methodology for calculating the grounding mode of expenditure in carrying out projects.

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# European Union Market and Attraction of Foreign Direct Investment

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## Abstract

*European accession has encouraged transnational corporations to increase their investment on the territories of member states. The highlight is the prospect that such a huge market provides especially after recent enlargements. Foreign investment is a means of avoiding tariff and non-tariff barriers installed at the community boundaries. Attracting FDI has become an increasing challenge to the European Union, mainly as a result of the financial crisis.*

**Key Words:** foreign direct investment, European policy, competition, transnational corporations.

**J.E.L. Classification:** F2

## 1. Introduction

Foreign capital is not facing significant opposition from European local governments. In all EU countries, the free repatriation of capital and profits derived is guaranteed. However, there are high taxes, rigid rules of the Labour Code and low financing resources. Therefore, sometimes large global companies such as IBM shift their focus strategy, preferring to enter less flexible markets, too in terms of labour force and level of permissiveness [1].

## 2. The European Union –Main Investors

Having 504 million people, the European Union is the third largest population in the world after China and India. With only 7% of the world population, the European Union has 20.3% of world GDP and its trade with the rest of the world accounts for approximately 15% [2].

Attracting FDI has become an increasing challenge to the European Union, mainly as a result of the financial crisis. Therefore, in

order to attract foreign investors, there is a focus on:

- expanding and strengthening the single market;
- ensuring open and competitive markets inside and outside Europe;
- improving European and national regulations;
- expanding and modernizing Europe's infrastructure and scientific basis.

In 2010, the European Commission outlined the future EU investment policy in the paper called "*Towards a Comprehensive European Policy in International Investment*". It is intended that this policy should aim at contributing in sustainable growth objectives in favour of the inclusion set in Europe Strategy 2020.

The General Commission Directorate for Economic and Financial Affairs closely examines the evolution of FDI flows worldwide, the performance of the European Union and its member states as FDI investors and beneficiaries. There is also an economic analysis on the impact of FDI in order to provide consultancy to member states [3].

Foreign direct investment flows are an essential element for enhancing the single market. In 2013, FDI flows to the EU increased by 14%, up to 246 billion dollars, compared to 2012, when there was a very low amount of investment flows. However, the level reached in 2007 (about 870 billion) still remains a hard to reach goal [4]. According to UNCTAD, foreign direct investment outflows from the European Union countries to the rest of the world increased by nearly 10% in 2013 compared to 2012.

Spain, the UK, Ireland, Luxembourg and Germany were the main recipients of foreign direct investment in 2013. France, however, reported the largest decline, from 25 billion dollars in 2012 to approximately 5 billion dollars in 2013, because, according to UNCTAD experts, many transnational

companies withdrew significant funds from their subsidiaries in this country [5].

The European Union has begun to coordinate its national economies and markets in order to increase the competitiveness of products as compared to US and Japanese goods.

A particularly fierce competition on the European market is the one between the subsidiaries of foreign companies, particularly American and Japanese companies, and domestic companies, with the former trying to gain market position and the latter trying to defend their old one.

American subsidiaries based in Europe have advantageous competition contexts: the huge financial potential of the mother-company - especially the technological progress and management. They have real chances to get a higher profit rate, thus having a development potential. US firms rank favorably in the leading sectors of the European Union [6].

Japan has a visible upward trend in its relation to the European Union as Japanese corporations' investment in the EU is much higher than the investment of Western European companies in Japan.

Over several decades, no region or country has attracted more US foreign investment than the European Union. Since the beginning of this century, Europe has attracted 56% of the total investment made by the US worldwide.

FDI flows to Europe increased by 6% in 2013, reaching a total value of approximately 200 billion dollars.

The Netherlands (47.4 billion dollars), the United Kingdom (32.7 billion dollars) and Ireland (17.8 billion dollars) were the top three destinations for US investment.

Of the total foreign assets of US transnational corporations, around 60% - 13.200 billion dollars were in Europe in 2012. The most assets were in the UK (5,100 billion dollars) and the Netherlands (2,000 billion dollars).

US subsidiaries in Europe employ around 4.2 million workers. According to estimations, US subsidiaries created 106,000 jobs in the UK economy in 2012, 58,800 jobs in Germany, 40,000 in France, 17,000 new jobs in the Czech Republic, 13,000 new jobs in the Netherlands etc. [7].

Japanese investment in the European Union is continuously growing, as companies in Japan are keen to develop their business outside their own oversaturated market. Japanese corporations acquire European companies in order to get market access. In 2012, Japanese companies' total stock of investment in the European Union reached about 150 billion euros [8].

Emergent BRICS member countries, together have contributed in significant increases in foreign direct investment flows [9]. This can be also highlighted by the capital inflows in the European Union.

*FDI Flows from BRIC\* Countries to the EU (billion euros)*

Country	2009	2010	2011	2012	2013
Brazil	1.2	9.9	13.0	2.2	21.5
Russia	12.5	7.6	3.1	8.4	8.1
India	1.2	0.5	2.3	-0.7	0.4
China (including Hong Kong)	1.5	14.2	11.6	6.6	9.2
<b>BRIC Total</b>	<b>16.4</b>	<b>32.2</b>	<b>30.0</b>	<b>16.5</b>	<b>39.3</b>

\* - The BRICS group has also included South Africa since 2010, but it is not shown in the analysis on the European Union web site.

Source:

[http://ec.europa.eu/eurostat/statistics-explained/index.php/File:FDI\\_flows\\_from\\_BRIC\\_countries\\_to\\_the\\_EU,\\_2009-2013p,\\_EUR\\_billion.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:FDI_flows_from_BRIC_countries_to_the_EU,_2009-2013p,_EUR_billion.png) [accessed on 6th March 2015]

Among emergent countries, Brazil is the country with the most investment in the European Union in 2013, followed by China. Overall, investment flows from BRIC emergent countries almost doubled in 2013.

On long term, not only by its influence upon the European Union but also globally, it seems that the BRICS group will show its presence.

In terms of the sectoral distribution of investment flows in Europe in 2013, the investment in software, the pharmaceutical industry and scientific research companies has increased significantly [10].

### 3. Competition on the European Union Market

Competition, often defined as an open confrontation, a way of disputing opportunities among companies to achieve a more advantageous market position, is now crucial to the European Union and its member states.

EU Competition Law lies in Articles 101 (former Article 81 of the Treaty of Rome) and 102 (former Article 81 of the Treaty of Rome) of the Functioning Treaty and of national competition laws of the member states. These articles deal with activities that are regarded as the essence of antitrust policy: a series of private business practices that can be interpreted as being anti-competitive. Once the enlargement of the European Union has taken place, certain reforms in EU competition policy have come into force. The executive powers in this field within the European Commission are mainly incumbent upon the Directorate-General for Competition.

EU competition policies focus on four main areas of action [11]:

- removing competition restrictive agreements and abuses of dominant positions. Agreements among companies to set prices on the market are prohibited (thus, the EU Commission has begun to punish such “cartel” arrangements in some industries. [12] Additionally, it is worth mentioning that on 20<sup>th</sup> March 2004, the members of the European Commission decided to impose a fine of nearly half a billion euros to US Microsoft corporation for its breach of competition rules, namely “*abuse of dominant positions*” [13]. The cartel of elevator manufacturers fined by the European Commission with nearly 1 billion euros or the cartel of car glass manufacturers fined by the same Community authority with over 1.3 billion euros, are just a few recent examples of huge amounts charged to companies for their anticompetitive behavior [14];
- controlling company mergers - any concentration from a certain level must be subject to approval by the European Commission. It is very important that, irrespective of the country where they are established, if businesses

together have a turnover of over 250 million euros in the European Union and over 5 million euros globally, the acquisition or merger must be analyzed by the European Commission. According to this principle, the Commission has blocked several acquisitions among major US companies;

- liberalizing monopolistic economic sectors, for example opening to competition the following sectors: telecommunications, gas and electricity, railway transport;
- monitoring grants by the state.

### 4. Conclusions

The European Competition Policy addresses governments and companies alike and “*is perhaps unique in terms of the policy organization in the EU because it has developed with national policies*” [15]. Community law seeks to protect the single market and stimulate competition in this vast economic area.

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

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**Subsection 3**  
**Regional Development Strategies**

## The Main Ways of the Development in the Shipbuilding Industry in Ukraine.

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### Abstract

*The article covers and analyzes the role of the navy on each historical stage of the development of the country in its economical and political component of the government. The progressive development of the national economy without effective using of transport is not possible, that is why the transport system of the state should work interdependent and distinctly, improving economic indicators and contributing to its growth, getting profit either from the building of ships or their using. The commercial fleet was and remains the main transport security of the state, showing its strategic power and providing its economical independence.*

*Taking into consideration the innovative ways of the developing of the shipbuilding of Ukraine.*

**Keywords:** shipbuilding, dockyard, marine cluster, automation of the roduction and information technology.

**J.E.L. classification:** 0180

### Introduction

The intensity of the development of the international economy of the interregional trade barter predetermines the dynamic of the seaborne traffic, and as a result, demands to increasing the productive potential of trade ports and shipbuilding industry.

The shipbuilding is a kind of activity, which provides a balance between demand and offer in different sort of sea management. During the activation of the foreign trade which forms freight, it also forms a demand on the fleet dead weight. The owners and operations staff of the ship place the orders on the shipyard that has a specialization on

this type of the ship and shipyards start building.

The shipbuilding in itself is a unique branch. It joins in its final product the achievements of many branches (machine building, instrument making, metallurgy), and in many relationships it stimulates their development.

In this way, the development of shipbuilding forms a synergetic effect in all branches of the economy. If you take the account of quantity which is busy in this branches and the amount of paid taxes, than we can talk about the shipbuilding as the most important branches of the native industry.

### The purpose of the research

The main aim of the article is the need of the consideration of innovative decisions, which are available in the shipbuilding branch.

### The main material

Over the past decade of the position of the Ukrainian shipping companies have been lost not only at the international but also on native routes. By itself the shipping's outdated – the most of vessels do not corresponds to the international convention demands. More than 92 % of goods, which are worked up in the Ukrainian ports, are transported by foreign vessels. In general, the native shipyard stays or works on a foreign client.

Among the comparative advantages, which are available in Ukraine for active development of the shipbuilding and going up the first of the world market position, can be called a high scientific potential of the shipbuilding industry of Ukraine, the availability of own raw material base, the necessary industrial facilities and skilled

staff. The diversification of production, the orientation to the world market, the ability to produce competitive product in the world market, say that today (with the favorable situation of the world shipbuilding market), Ukraine should not lose the opportunity to maintain and develop the potential accumulated shipbuilding.

The shipbuilding industry of Ukraine inherited powerful industry potential after the formation of the independent state: eight well equipped and high profitable shipyards, which were about 30 % of the shipbuilding in the former Soviet Union. These factories in previous years due to the mechanization of workflow increased productivity of labor, reduced the vessel cost, it was growing net profit. The factories had current assets above the norm, which allowed them to supply the payment of taxes and salaries, expanded and re-equipped technical production, developed the social area, built the accommodation. But it's necessary to mark, that 65% of the shipyards were warships, which were built by the government order. Therefore, a question of funding of the vessel construction to the shipyards didn't stay at all.

After 1992, when shipbuilding was practically stopped, it cleared that the majority of Ukrainian ship owners (the exception was just Blasco) didn't have the means for building the necessary vessels on the native shipyards, which at the same time lost military and civilian orders.

The exit of this situation was seen in the ship building for export, all the more Ukrainian shipyards were built for export for 10-12% cheaper than some of the foreign companies, and there were enough customers.

Despite the fact that foreign customers reduced the contract price of the vessels from 15-20% of world prices, explaining that the risk of investing in the industry of Ukraine, the construction of ships for export is still quite profitable. The risk of investing in the Ukrainian economy was the result of inconsistent tax policy (rates, which change frequently, the mechanisms of calculation and payment of taxes, lack of stable tax privileges for foreign investors); numerous bureaucratic obstacles to the implementation of investment projects; unpreparedness of most businesses to invest, the lack of a

competent investment planning; chronic unprofitability of most domestic shipyards.

Indeed, the presence in 1992-1994 remnants of steel and other materials, purchased at low prices, low levels of depreciation related to the erroneous policies of late indexation of fixed assets, a significant amount of profits that were formed as a result of rapid growth in 1992-1993 dollar the procurement of materials and equipment at much less his course, led to relatively efficient total cost in the construction of ships.

But this was not evidence of the effectiveness of achieving in shipbuilding. And when, in the period 1994-1996, as a result of compulsory sale of foreign currency, reducing the possibility of the timely acquisition of foreign equipment, inflation, a significant increase in the cost of materials, including metal-roll, energy, working capital shipyards were almost washed, the conditions of their production and financial and economic activity have deteriorated, enterprises have been forced to take out loans with high interest rates from local banks. With a lack of working capital and long-term cycle of construction of vessels, it abruptly increased their costs. These external conditions of production and financial and economic activity of the plants had a significant impact on the growth of expenses in the construction of ships.

The decisive factors for the increase in costs caused by shipyards can be considered: a significant decline in production; irrational use of industrial fixed assets and leaving workers with decreasing capacity utilization program of shipbuilding; assignment factory overhead expenses not related to the production of shipbuilding products, to the shipbuilding industry; irrational financing the construction of vessels.

Difficulties with financing the construction orders, the decline in production has not led to significant shipbuilding production capacity utilization and a reduction of employees in enterprises. Low levels of capacity utilization and a significant increase in costs for the construction of vessels, which were higher than the value of their contract, led to a sharp decline in the effectiveness of the primary activities of shipyards.

In this situation, shipyards and the general state of the economy, foreign customers began to show caution and distrust of the factories offering under the terms of the contracts already overseas demand, so, the payment of 10% of the value of the vessel with safeguards after signing the contract and 90% - in the transmission of the finished vessel [1,11 p.].

The production of the capacity of the shipyards in Ukraine during this time was downloaded on the average by 25-30%.

The current state of sea and river Ukrainian merchant fleet is characterized by a number of negative trends:

- the reduction in the number of merchant ships, including the national flag;
- the reduction of the foreign exchange earnings derived from the operation of the fleet, and hence a reduction in tax deductions;
- the active aging fleet, which in turn leads to a limited number of measures of native vessels to foreign ports.

The decline in the participation of the Ukrainian fleet in the transportation of foreign trade cargoes, led to loss of profits, to strengthen of Ukraine's dependence on the global freight market and an increase in imports of transport services. In Ukraine, there is still no accepted practice, as in many countries, the ship financing installments, including the use of the system of the leasing. The reason for this is a risk, because of which lending to the shipbuilding industry had not yet become widespread. The current procedure for the formation of insurance funds to cover potential losses as a result of credit activity does not allow commercial banks to form the necessary reserves. In accordance with the laws of reserves to cover possible losses for loans created from net profit. And in most European and Asian countries, which have developed shipbuilding, the state assumes guarantees for loans to commercial banks vessel construction or banks lend to the construction of new vessels under a pledge of property of the company that explores them, in the amount of up to 80% of their value on the world market at the rate of 8% loan with payment by installments for 8-10 years.

This allows the customer to pay only 20% of the cost of the vessel. The rest of the loan

is returned from the profits derived from the operation of the vessel.

Nowadays the shipbuilding of Ukraine is on the decline. Meanwhile this sector has a lot of unique factors, generated during the time of USSR, owing to which regeneration of industry could be expected.

Ship building yards use the advanced engineering of hull construction and installation of ship's machinery.

The modern docks, wharfs and deep channels are equipped with the cranes of high lifting capacity.

This allows producing the ships of a wide use, from cargo barges to the research vessels. Our shipyard teams are exceeding in technology performance (welding, painting) and quality materials used for South-Eastern Asian colleagues, who are the leaders in this sector of economic s..

The main stream of development in Ukrainian shipbuilding is innovations:

- Ship wharf clustering;

Marine cluster provides the coordination of marine transportation and industrial enterprises with local authorities, scientific and education institution of region. It was significant to note that system of marine cluster usage could be an effective realization instrument for deep transformation of marine economical system, laid in marine doctrine of Ukraine till 2035.

The methods and models of project management are effective instrument for realization of cluster model management in marine complex of Ukraine. The value system for project organization, where marine clusters are part of it, consists of: competitiveness ensuring of marine transport enterprise; creation of clauses for scientific results realization; expansion of job growth and decreasing of social tension of population in region.

However, for effective progress of economical cluster systems the access to reliable credit resources is needed. Under this context the mechanisms of financial leasing as more effective element of financial infrastructure could be used as well.

Clustering improves labor grade of personnel, link between science and practice. Successful shipbuilding countries are sponsoring scientific achievements in this sector from 50% (S. Korea, Japan) up to 100%(China).



This factor is playing the main role in competitiveness, and is the basement of growing up of this sector of economic, quality of projects, decrease of cycle of ship building, causing the cost saving.

The creation of clusters is not the end in itself, but one of effective shape of motivation and mechanisms of transformation to the way of innovation development.

- Implement of manufacturing automation;

Effectiveness of ship building business is identifying by level of scientific and technical design in connection with complex preproduction during the ship building of new projects.

The main effect from introduction of automation systems consist in reducing of errors and inconsistence in project documentation using the checked and upgraded data bases, reduction hard works and terms of project works, improving the work quality using the optimization, cost reduction for technical preproduction using the complex solution and system concept.

The full-scale modernization can considerably improve work efficiency.

For instance, upgrading the plant, reconstructing the business-project owing to discrete work of project bureau and engineering centre the term of tanker vessel build could be reduced for couple of month.

- IT introduction;

Corporative information system development conception, providing continuous information support of full life cycle of vessel during the designing, building, operation and service maintenance, the same as uniform method of information cooperation of owners, suppliers, shippers and shore technicians in domestic ship building will allow to reduce the costs in ship building procedure.

At present, ship building corporations are faced with expansion of cooperation either inside of countries or on international scene. During the ship building procedure, shipyard works close to a lot of organizations, for instance, the owner of vessel, class society, miscellaneous construction bureaus, counteragents and big list of suppliers. The effective information interchange in such situation is needed.

It could be stated, that the situation on the market of science-consuming industry, which the ship building applies to, is developing toward to the paperless, electronic technology: design, producing and operation. The Information becomes the same resource as any other material actives (machinery, equipment, buildings and constructions). With the help of the information, management is possible. Information becomes as a factor of production.

The Ship building is unique sector of industry. It combines in her final product the achievements of miscellaneous sectors of industries (machinery, instrument-making industry and metallurgy) and stimulating their development as well.

## Conclusions

The production of the capacity of the shipyards in Ukraine during this time was downloaded on the average by 25-30%.

The current state of sea and river Ukrainian merchant fleet is characterized by a number of negative trends:

- the reduction in the number of merchant ships;
- the reduction of the foreign exchange;
- the active aging fleet.

Regional authorities provide the growth of employment and reduce social tension in the region under the condition of effective functioning of the maritime cluster system. The essential factor is the real possibility of activation of small and medium-sized businesses, the implementation of socially important regional programs.

Currently, the world shipbuilding industry has a considerable fund of software that can automate the processes of design and management of production construction of vessel's projects of various classes and purposes.

The strategic aim of creating the shipbuilding in Ukraine should be considered intensification of the investment multiplier on the basis of the shipbuilding industry

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## Theoretical Approaches on Financing through Programs in Social Assistance Field

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### Abstract

*The social assistance system is based on the following principle: from the state budget funds or funds raised voluntarily from individuals or community are supported people in need, according to their needs profile. In this case, the benefit is based on the existing needs, according the principle of solidarity, not being dependent on any contribution previous self, as in the case of social security. Usually, support for people in need through social assistance system is only stated by general limits of law, following to be specified by the analysis of concrete situations by social surveys conducted by specialists in social work. A complex social system of social assistance is complementary with highly trained professionals based on modern skills.*

*The aim of policy in this area is the development of efficient social assistance to support people in difficulty, the protection and welfare of children, families and the elderly.*

**Keywords:** Social Policy, Financial Benefits, Social Assistance Services, Financing Programs;

**JEL Classification:** G28, H68, I38.

### 1. Introduction

The objective of social intervention is to support those in difficulty to obtain necessary conditions for a decent life, helping them to develop their capabilities and skills for adequate social functioning. These individuals or groups for a period of time shorter or longer cannot lead an active, self-sufficient life, without economic aid or without a physical, moral, social or cultural

outsider support. Support is usually for a limited period of time until people in difficulty find social, psychological, economic resources that can lead a normal, self-sufficient life. The following categories constitute the special object of social intervention: poor families, children living in an adverse family environment, abandoned and institutionalized people, juvenile delinquents, non-integrated young people, drug and alcohol addicts, people physically, sexually abused, people with physical or mental disabilities, people with chronic diseases without legal support, helpless elderly people who have suffered from natural disasters, social, persecution and discrimination of any kind etc.

Social assistance[1] as an essential part of social protection is an operational way of implementing social protection programs for the categories mentioned above. Thus, [10] it provides services through its specific, partially alleviating inequalities, helping them to integrate normally in the community, but especially to regain their own autonomy.

### 2. Description of current situation

In the field [2] of social support are envisaged measures to protect the family and child, the disabled, the elderly, those from disadvantaged backgrounds and all those who are at risk of poverty and social exclusion in accordance with strategies in the field, the provisions of the Government Program and obligations assumed as a member state of the European Union.

The main objectives are[3] :

A. Continue the reform of social benefits to transform it into an efficient, balanced and flexible one, correlated with active measures aimed at ensuring preventing and combating

risks or situations that may lead to social exclusion[4];

B. Development of legal framework for achieving a national, sustainable and effective social quality service tailored to the needs of different categories of persons in difficulty;

C. Promoting public policies for social care of the elderly in the context of accelerated demographic aging process;

D. Institutional capacity development to ensure systematic monitoring, evaluation, analysis and forecast of indicators of social assistance and social inclusion and in order to achieve the strategic planning and determining the most effective policies and programs in the field;

E. Increase in the social assistance system performance by promoting competence and quality personnel in the system.

The main[5] benefits for the period 2015-2017 :

- State allowance for children
- Allowances, incentives and support for raising children
- Rights for disabled persons
- The allowance for family support
- Aid for heating
- Social benefits
- Minimum insertion income
- Other social rights

On the expenditure budget for the year 2015 were taken into account the increase in the allowance for supporting low-income families by 42 lei per child, increasing the level of investment allowance under Government Emergency Ordinance no.65 / 2014 and the increase by 16% of monthly allowance and supplementary budget for people with disabilities[6].

Since 2016[6] , under the law of social assistance no.292 / 2011, will be established the minimum insertion income as the main form of intervention to prevent poverty, to guarantee a minimum income for each person in Romania. It will be addressed to low-income families and will ensure, over time, achievement of the target proposed in the National Reform Program, based on the European Strategy 2020 of poverty reduction according to the methodology used in the Member States of the European Union.

### 3. Financing through social assistance programs

Currently, a consistent help in the reconstruction of forms of social support is the European funding programs, which are aimed at social inclusion. Development of solutions for the socially excluded through EU funds programs and internal may be largely an affirmative answer to the social assistance austerity budget. But often, the lack of coherence, communication and transparency of European programs focused on inclusion, as well as those of local budgets diminish obviously their role in the construction of a specialized, effectively articulated support in the end. Fragmentation of policies on endpoints and philosophy of these programs leads to minor results compared to the high costs invested in their development. In addition, the lack of visibility marks a poor responsibility for public funds and deepens corruption in the system.

These[6] projects were taken over by companies, more or less specialized in social assistance. Unfortunately, the program activities were conducted independently of each other, with much overlap during the course, and the time for evaluation and monitoring, left only in the closure was totally insufficient[6].

There is also[4] the impression, quite widespread, that Romania, as a whole, is far to use the opportunities it has, of development through European structural funds programs. In the process of accessing European programs there are still held sensitive differences between socio-economic areas / sectors and geographic regions of the country. Currently, Romania does not benefit from a diagnostic analysis by geographic areas of social policies with clear priorities in social and human development; there does not exist a social map of the issues and directions for the *social shaping* of communities by European programs. It lacks a global inventory of projects, programs, initiatives undertaken so far and ongoing for the social construction of Romanian communities and underdeveloped areas.

These programs at the national level should be complementary, convergent and to mutually support each other in the process of

sustainable and of duration development. Unfortunately, as mentioned in many previous reviews for Romania, the synergy of social development programs, a clear idea supported by EU rules, still remains at level of desideratum. The competition[7] for financial resources of programs / community development projects remain an end in it self, and their fragmentation is strongly emphasized in relation to an integrated and coherent social policy. A wide variety of social problems generated by new structural changes, such as: migration, the decrease of demographics share and of active population, increased delinquency, violence and terrorism, environmental pollution and irresponsible lack of concern for the formation of ecological consciousness, damage to human relations and moral values and democratic overthrow, family dissolution and superficial deficiencies in education, etc. became the subject of support activities in social policy plan of European development with a qualitative emphasized profile[8].

Alongside redistribution centralized financial institutions, the European social policy system is focused on three distinct[9]:

**1. Widening social issues which become the object of social policies** in general, of inclusion policies in particular. It is significant introducing on the EU agenda a broader issue of social exclusion and promoting appropriate strategies of social inclusion, on the one hand. On the other hand, takes place the increase of indicators on individual and collective quality of life, which is a fundamental landmark of sustainable social development strategies.

**2. The increasing orientation on the programs, projects, strategies for action**, in which the share of creative and innovative the services is growing. In the field of social policies, instead of national standardized institutional approach is encouraged the initiative of plurality of sustainable community development experiments, learning efficient principles of institution, community and family building.

**3. Decentralization** as a process that has expanded rapidly in Europe is assumed through all its consequences, both positive and negative. Local public authorities take over the responsibility of programs and projects to prevent and resolve social problems, with all the psycho-socio-cultural

consequences that arise in everyday life of each of us. Thanks to this process of openness to social innovation, appears inevitably differentiation of zonal development. There are communities that assimilated quickly, organic the innovative principles of social development through effective initiatives of construction type, durable over time. Others, through their social actors, know a slower pace of construction, taking into account, in particular, the "demolition" of existing structures without recovery solutions in the near future.

The differences[9] are determined by three distinct factors: *available financial resources, political will and professional capacity* (maybe the most important in the process of structural change). The latter is supported by key variables: individual and collective initiative, creativity, rationality and sustainability of projects.

For Romania, it may be useful a quick list of some central objectives of local or sector development by European programs with a major impact on individual and collective wellbeing [10]:

- Rehabilitation of infrastructure (an architectural harmonious and well structured space, according to the social environment of life, "friendly" roads, public facilities, quick communication systems, etc.).
- Landscaping: both the necessary ones for production and those related to prevent and minimize pollution and ecosystem rehabilitation.
- Achieving priority objectives of public interest: *nursery-type* kindergartens for young ages 0-3 years, kindergartens with flexible hours, modern schools, equipped hospitals, places of entertainment for children and adults, sports complex accessible to all, etc.
- Developing productive capacities of individual and cooperative type, by stimulating the development of efficient management of the business by providing active policies to create jobs by creating equal opportunities for human development for groups and individuals at risk of social marginalization, etc.

- Increasing individual and collective security through continuous community actions, especially in communities of marginalized regions, areas highly vulnerable in terms of social integration.
- Developing social support networks of structured type, centered on needs to support individuals and groups in need, in order to restore normal integration capabilities in their own community.
- Developing effective social services to prevent social exclusion and marginalization especially focused on children and youth at risk.

Along [10] with the standard public community activities (housing utilities, good roads, modern and friendly education facilities, health and social security institutions focused on solving problems, defending and protecting green spaces, eliminating pollution of any kind etc.) in Romania are required those innovative sectoral programs, for social *and human changes and human in community in the long run*. The new philosophy[11], as mentioned repeatedly underlying this option is to create *a multiple active partnerships* involving all relevant actors in the community. Public county, district / local authorities will become democratic instrument built of orchestrating joint efforts in various forms, by mobilizing all community actors for collective action[12]. Thus, *the traditional alienation of the civil society* will be overcome, of the past. There are expectations that can become, over time, reality. It is up to our wisdom to competently manage our resources and to empower local/ community development programs to change our daily lives.

#### 4. Conclusions

Social policies of social assistance, as they have evolved to date and how they are loomed in the future, although helped limit explosive social phenomena, are far from providing a satisfactory solution to the social inclusion of disadvantaged / socially marginalized individuals and groups.

The economic recovery, whose signs are yet not visible obviously will not be likely to absorb in a sufficient time huge social and

human cost of the crisis period so far. It will be necessary doubling its active social policies supported constantly by policy makers. In this regard, the sociological perspective and of social support, highlight on the one hand, the need for a coherent integrated strategy at national level, to prevent and reduce disruptive social phenomena, but also continuous improvement of social frameworks of life. On the other hand, Romania needs now, more than ever, the development of local, efficient, mechanisms of integration and punctual rehabilitation of distressed and common actions oriented towards growth of individual and collective wellbeing.

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## The Evolution of the Romanian Microenterprises financed by the European Regional Development Fund

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### Abstract

*The purpose of this paper is to analyze the evolution of the microenterprises from the Romanian county Vaslui in terms of the number of employees, net turnover and gross profit, after receiving financial assistance from the 2007-2013 programme dedicated to regional development. Measuring the progress of the three parameters, we tested in the empirical research performed the hypothesis that the microenterprises that obtained financial assistance from the European Union for more than one project performed better than the ones that obtained financial assistance for one project only. The paper also includes a critical assessment of the content of the information made available to the general public by the responsible authorities regarding the financed projects and the potential future implications of the e-cohesion obligation.*

**Keywords:** microenterprises, regional development, nonreimbursable assistance, e-cohesion, complementarity

**JEL classification:** O18, R11

### 1. Introduction

For the 2007-2013 programming period, Romania implemented several programmes financed by the European Union addressing its different developmental needs. One of these programmes was the Regional Operational Programme, financed by the European Regional Development Fund (ERDF). Covering fields of intervention such as transport infrastructure, tourism, social infrastructure and business environment, the programme also provided financial assistance to microenterprises. The assistance, provided

within the key area of intervention 4.3 – “Supporting the development of microenterprises”, was granted to microenterprises to purchase equipments, technologies and IT systems for their activity [1].

A recent study elaborated for the Romanian Ministry of Regional Development and Public Administration which evaluated the impact of the key area of intervention 4.3 by means including a counterfactual analysis concluded that the microenterprises that received financial assistance increased their personnel more than those which did not receive financial assistance [2]. The study also identified a positive correlation between the value of the financial assistance provided and the increase in the number of employed staff. The study did not establish that the microenterprises that received financial assistance increased their turnover more than those which did not receive financial assistance.

The purpose of our paper was to test the hypothesis that the microenterprises that obtained financial assistance under intervention 4.3 and which also had other projects financed by the European Union, regardless if those projects were financed by the Regional Operational Programme or another 2007-2013 programme, performed better than the microenterprises that obtained financial assistance for one project under intervention 4.3. The performance was measured in terms of the number of employees, net turnover and gross profit.

### 2. Methodology

The population used to test the hypothesis consists of the microenterprises that had reimbursement claims paid by the managing authority between 2009 and 2013, corresponding to projects contracted within

the key area of intervention 4.3 of the Regional Operational Programme in Vaslui County. The definition used for a microenterprise is the one provided by the Law 346/2004 with the subsequent modifications, according to which an enterprise is considered micro if it has no more than 9 employees and a net turnover or total assets of up to 2 million euros. By approving the project under intervention 4.3, the managing authority acknowledged the status of the company as microenterprise. The County of Vaslui was selected due to the fact that it was the least developed county of the least developed region of Romania in 2005[3], before the 2007-2013 programmes were implemented.

In order to obtain the information regarding this population, 4 sources of information were used. The first source was the online search capability provided by the website of the Ministry of European Funds – [www.fonduri-ue.ro](http://www.fonduri-ue.ro) [4]. This tool allows sorting the projects for which a financing contract was signed under the 7 EU-funded programmes implemented in Romania during 2007-2013, using a number of criteria. The list generated by this tool using as criteria the Regional Operational Programme, the key intervention 4.3 and the geographical location included 16 projects belonging to 12 beneficiaries. The tool also allows the user to consult the list of payments made by the responsible authority to the beneficiary for each project. Following this consultation, out of the 12 beneficiaries only 9 received reimbursements during 2009-2013. A second source of information was used in order to identify the cancelled projects [5]. No cancelled projects were identified but one project was registered in the South region of Romania and not in the North-East region. The respective project/microenterprise was eliminated from the population.

For this population, made up of 8 microenterprises, data was collected from a third source of information, namely the website of the Ministry of Public Finances [6], with regard to the number of employees, net turnover and gross profit for the years 2009 and 2013. Finally, data was also gathered concerning the number of projects that every microenterprise implemented, regardless of whether those projects were financed by the Regional Operational

Programme or by another 2007-2013 programme. For this, a fourth source of information was used, namely the list of all financing contracts signed in the North-East region and financed by the EU-funded programmes for 2007-2013, which is published by the Regional Development Agency responsible for the region [7]. The list includes information up to September 2013 but this was considered sufficient for the purpose of the analysis because it is not likely that a project contracted after September 2013 would have reimbursements before the end of 2013. Because the list includes the Single Management Information System registration code, which uniquely identifies every project, it allowed the verification of the amounts reimbursed between 2009-2013, using the online facility previously mentioned. As a result, out of 8 microenterprises, 5 had only one project, implemented under intervention 4.3 and 3 implemented more projects as follows: 1 had two projects, both implemented under intervention 4.3, 1 had three projects, all implemented under intervention 4.3 and 1 had two projects, one implemented under intervention 4.3 and one implemented under another operational programme.

### 3. Results

In order to test the hypothesis, the population was divided into 2 groups: microenterprises with one project and microenterprises with more than one project. The results of the analysis of the evolution of the number of employees, net turnover and gross profit between 2009 and 2013 for the group of microenterprises with one project (group 1) are presented in the following table.

*Table 1. Evolution for group 1*

	Net turnover	Employees	Gross profit
Increase > 100%	4	4	2
Increase < 100%	1	0	1
Decrease	0	1	2
Total	5	5	5

Source: [www.mfinante.ro](http://www.mfinante.ro) [6]



For this group, all the microenterprises presented an increase in the net turnover, most of them showing a significant increase of more than 100%. In terms of number of employees and gross profit, most of the microenterprises presented an increase. Also, it is important to mention that, according to the data, 60% of these microenterprises no longer fulfilled the requirements of being a microenterprise in 2013, the financial assistance received supporting their development.

A similar analysis was performed for the group of microenterprises with more than one project (group 2) and the results are presented in the following table.

Table 2. Evolution for group 2

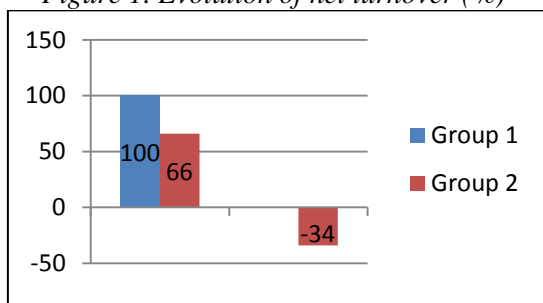
	Net turnover	Employees	Gross profit
Increase > 100%	2	2	1
Increase < 100%	0	0	1
Decrease	1	1	1
Total	3	3	3

Source: [www.mfinante.ro](http://www.mfinante.ro) [6]

In the case of group 2, also most of the microenterprises presented an increase in all the parameters analyzed. In this case, 33% of the microenterprises no longer fulfilled the requirements of being a microenterprise in 2013.

Comparing the results for the two groups, in terms of the net turnover, group 1 had a better evolution than group 2, as 100% of group 1 presented an increase while only 66% of group 2 showed such an increase. This evolution is shown in Figure 1.

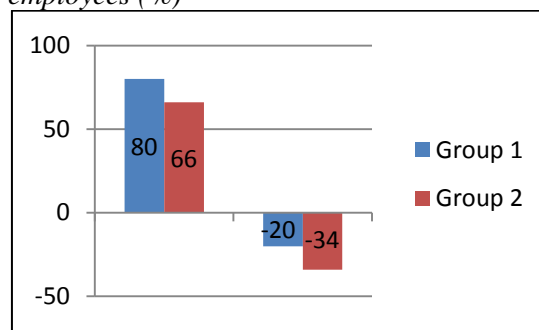
Figure 1. Evolution of net turnover (%)



Source: [www.mfinante.ro](http://www.mfinante.ro) [6]

Comparing the results for the two groups, in terms of the number of staff, once again group 1 had a better evolution than group 2, with 80% of the microenterprises from group 1 presenting a positive evolution, while only 66% of the microenterprises from group 2 presented a similar increase. This evolution is shown in Figure 2. It is important to point out here that creating permanent job positions within the microenterprise was one of the criteria used by the responsible authority when selecting the project for granting the financial assistance.

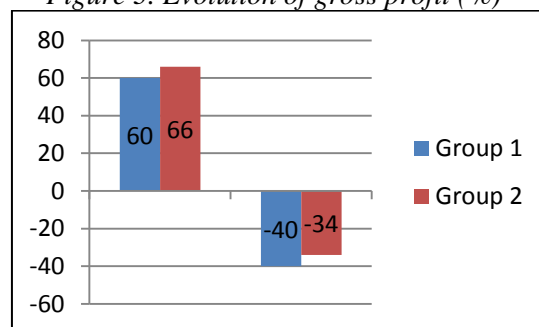
Figure 2. Evolution of number of employees (%)



Source: [www.mfinante.ro](http://www.mfinante.ro) [6]

In terms of the gross profit, as opposed to the previous situations, group 2 had a better evolution than group 1. This evolution is shown in Figure 3. As such, 66% of the microenterprises from group 2 presented a positive evolution, while only 60% of the microenterprises from group 1 presented an increase.

Figure 3. Evolution of gross profit (%)



Source: [www.mfinante.ro](http://www.mfinante.ro) [6]

Within group 2, each microenterprise presented a different evolution. The microenterprise with 2 projects, both financed within intervention 4.3, had the best evolution, presenting an increase of over

100% for all the 3 parameters. The microenterprise with 3 projects, all implemented under intervention 4.3 presented an increase of over 100% in the net turnover and the number of jobs, but registered a decrease of the gross profit. The microenterprise with two projects, one implemented under intervention 4.3 and one implemented under another operational programme, had a negative evolution in terms of the net turnover and number of staff but a positive evolution regarding the gross profit.

#### 4. Conclusions

For Romania, the year 2015 is the starting point for the implementation of the new operational programmes financed by the European Union. Most of these programmes, defining the intervention areas for 2014-2020 have already been approved and now the detailed implementation rules are being prepared. It is important that this process builds upon the experience gained during the implementation of the previous 2007-2013 programmes.

Within this framework, the empirical research performed in this paper focused on analyzing if the microenterprises from the County of Vaslui that obtained financial assistance under intervention 4.3 and which also had other projects financed by the European Union, regardless of whether those projects were financed by the Regional Operational Programme or another 2007-2013 programme (group 2), performed better, in terms of number of employees, net turnover and gross profit, than the ones that obtained financial assistance for one project (group 1).

The results of the analysis showed that such a hypothesis cannot be confirmed, group 1 presenting a better evolution in terms of the net turnover and number of staff than group 2. In the case of the gross profit, group 2 registered a better evolution, but the difference was not significant in comparison to group 1. A possible explanation of this situation could be that due to the size of the enterprises, the constraints of implementing projects financed by the European Union could raise challenging difficulties for the microenterprises, which increase with the number of the projects implemented. Also, it

is important to mention that the small population used in this analysis, namely the microenterprises from the County of Vaslui, is a factor that imposes certain limits to the analysis. In order to reach more relevant conclusions, it is necessary to perform a larger study covering the entire North-east region of Romania, once the implementation of all projects belonging to the 2007-2013 programmes is finalized.

The analysis presented in this paper also allows some considerations regarding the information presented to the public by the responsible authorities about the projects financed under the different operational programmes. There are some minimum requirements in this field which are enforced by the European Union, such as publishing the list of the names of the beneficiaries of EU funds, including the title of the project and the public contribution to the project [8], but these are not sufficient for performing more detailed searches.

In the case of the authorities responsible of the Regional Operational Programme, they offer a wide range of information about the projects financed under this programme on the website [www.inforegio.ro](http://www.inforegio.ro). The information provided is accessible in .xls and .pdf formats but also as a GIS map. There is no detailed information regarding the payments.

In addition, the North-East Regional Development Agency provides some information about the projects implemented in the region, under all operational programmes. The information is updated only up to September 2013 and is presented as a .pdf file.

Finally, the Ministry of European Funds, the structure responsible for the coordination of the structures involved in the implementation of the operational programmes, also provides information about the contracted projects for all the programmes via the online search facility from the [www.fonduri-ue.ro](http://www.fonduri-ue.ro), previously mentioned in the paper. The tool does not allow downloading .xls files and during the research performed it was identified that one of the microenterprises was wrongfully presented under the North-East region.

In conclusion, there is room for improving the sources of information about the projects implemented in Romania in order to make

them more complete, updated and reliable. This could be achieved due to the new requirement for 2014-2020, namely the e-cohesion.

The e-cohesion implies that the beneficiaries will be able to exchange data with the responsible authorities in electronic format only. This has many benefits, one of them being that the volume of information regarding the projects financed by the European Union in Romania, available in electronic format, will increase. It will be up to the responsible authorities to make this information also available to the general public, in a format that allows data processing, increasing in this manner the possibilities of performing different sorts of in-depth searches in order to constantly improve the impact of the EU funds on the Romanian enterprises.

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## Importance and Trends of the Resource Productivity in Romania

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### Abstract

*In this paper we try to highlight the conceptual and strategic importance of the resource productivity, since a most important lead indicator for implementing and monitoring all the latest strategies of sustainable economic growth in the European Union and consequently, in Romania.*

*However, the quite poor evolution of this indicator in Romania, with data available from the NIS System of Sustainable Development Indicators for the period 2000-2012 may be analysed separately for the pre-accession and post-accession to the EU periods. Our research shows a recent trend of slight recovery and increase of the RP in Romania that calls for further analyses in order to see which the latest positive potential factors for a resource productivity increase are.*

**Key words:** resource-efficiency, strategy, resource productivity, economic growth, decoupling

**J.E.L. classification:** O47; Q01; Q32; Q56

### 1. Introduction

Creating a more energy and resource-efficient society that uses resources responsibly and organizes industrial processes as to minimize waste should reflect objectives of sustainable economic development in all major areas.

Therefore, the European Union Sustainable Development Strategy (EU SDS) and the National Sustainable Development

Strategy (NSDS) of Romania have set the objective of promoting sustainable consumption and production patterns.

Therefore we aim to emphasize and analyse the importance of resource productivity as a concept and indicator for monitoring and implementing the sustainable development strategies in the EU and in Romania and also for transition to a resource-efficient, green and circular economy.

### 2. Conceptual and strategic importance of resource productivity

The environment and natural resources underpin both our economy and our quality of life. To secure sustainable economic growth and jobs, all the strategic approaches of development should ensure first that these increasingly scarce and expensive natural resources still circulate and create value in the economy [1].

Hence, a resource-efficient economy is required, very close to ideal concepts like a ‘green economy’ or a ‘circular economy’. Both these concepts promote a systemic transformation in the way resources flow through the economy and society.

The Europe 2020 Strategy and its flagship initiative on "A Resource Efficient Europe" set the EU on the path to this systemic transformation. The initiative also involves a roadmap to define medium and long term objectives and means needed for achieving them.

Increasing the resource-efficiency of all the economic activities in the EU represents a key objective in all the strategic documents addressing medium and long-term economic growth.

In practice, this requires that the stocks of all environmental assets from which the EU benefits or sources its global supplies are secure and managed within their maximum sustainable yields. The Resource-efficient Europe flagship initiative under the Europe 2020 Strategy [1] promotes the integration of resource efficiency in economic, energy, transport, construction, agriculture, fisheries and cohesion policies.

Higher and sustained improvements of resource efficiency performance are within reach and can bring major socio-economic and environmental benefits. This way all the strategies for sustainable development should be efficiently and effectively underpinned [2].

Therefore, one of the key objectives of the National Strategy for Sustainable Development of Romania is the eco-efficient management of resource consumption to maximize outputs, by promoting a sustainable model of production and consumption allowing for long-term sustainable economic growth and convergence to the average performance of EU states in resource productivity.

The importance of the shift towards a resource-efficient and low-carbon economy in the EU and consequently, in Romania may be emphasized by highlighting its advantages, since this process of sustainable production and consumption is meant to contribute to:

- boosting economic performance while reducing resource use;
- ensuring security of supply of essential resources;
- addressing climate change and limiting the environmental impacts of resource use;
- creating new opportunities for economic growth and greater innovation;
- increasing EU's competitiveness.

A Roadmap to a Resource-efficient Europe [3] has defined medium and long term objectives and the means needed for achieving them. The Roadmap should also be seen in the context of worldwide efforts to achieve a transition towards a green economy, while the main challenges and actual resource and energy constraints are at present more and more significant.

As stated in the Roadmap to a resource efficient Europe [3], in the EU each person

consumes 16 tons of materials annually, of which 6 tons are wasted, with half going to landfill. Trends show, however, that the era of plentiful and cheap resources is over. Businesses are facing rising costs for essential raw materials and minerals, their scarcity and price volatility are having a damaging effect on the economy.

Sources of minerals, metals and energy, as well as stocks of fish, timber, water, fertile soils, clean air, biomass, biodiversity are all under pressure, as is the stability of the climate system. Whilst demand for food, feed and fibre may increase by 70% by 2050, 60% of the world's major ecosystems that help produce these resources have already been degraded or are used unsustainably.

If we carry on using resources at the current rate, by 2050 we will need, on aggregate, the equivalent of more than two planets to sustain us, and the aspirations of many for a better quality of life will not be achieved [3].

Therefore, in order to prevent this unsustainable scenario, we shall need a new focus on resource efficiency and measure progress towards a resource-efficient economy more carefully and pro-actively.

Besides that, there may be many economic, ecologic and social benefits of restructuring and turning the economy and industry into a resource-efficient path, since this will bring increased competitiveness, new sources of growth and jobs through cost savings from improved efficiency, commercialization of innovations and better management of resources over their whole life cycle.

The principal objective of the roadmap is namely improving economic performance while reducing pressure on natural resources. In this context, there are a number of key productivity indicators, which show how society is doing in decoupling economic development from the use of natural resources.

These productivity indicators are defined as the ratio of GDP to different types of natural resources such as materials, water or land, and the lead macro-indicator is **resource productivity**, chosen to measure the main objective of the roadmap.

The lead macro-indicator (**Resource productivity, RP**) has been chosen to

measure the progress in the principal objective of the Roadmap [3].

Resource productivity is defined as the ratio of GDP to domestic material consumption  $RP = GDP/DMC$ .

Domestic material consumption measures the total amount of material directly used by an economy, such as biomass products, metal ores, fossil fuels, non-metallic minerals, petroleum resources etc. and is equal to domestic material extraction plus imports minus exports.

According to the OECD handbook on measuring material flows and resource productivity [4] the term ‘resource productivity’ may be analysed in a welfare perspective and is understood to involve:

- a quantitative dimension (e.g. the quantity of output produced with a given input of natural resources) and also
- a qualitative dimension (e.g. the environmental impacts per unit of output produced with a given natural resource input).

An important conceptual aspect is that resource productivity (RP) is no different from any other type of productivity (labour, infrastructure etc.) in that it would contribute to growth and jobs although a resource productivity increase would also contribute to a better environment.

Resource productivity describes the relation between economic outputs in monetary terms ( $Y$  – numerator) and a physical indicator ( $M$  – denominator) for material or resource input.

The indicator RP is expressed at the level of EU-28 in euro per kg and also as an index based on the year 2000 (at Eurostat), while in the Romanian NIS System of Sustainable Development Indicators, RP is expressed in Thousand lei/t, (2005 prices, see Table 1 and Figures 1 and 2a and 2b).

### **3. Trends and issues of resource productivity in Romania**

We have previously analysed and concluded in [5] that resource-efficiency, namely expressed by the resource productivity indicator enabling the decoupling of resource use and environmental impacts from economic growth, underpins all the valuable ideal concepts of economy and development:

sustainable development, the green economy and the circular economy, as well as the policies and strategies dedicated to their objectives.

Anyway, a higher RP ratio measured as a ratio of GDP/DMC would indicate better performance, with growth consuming relatively fewer resources.

In the National Sustainable Development Strategy Romania (NSDS) 2013-2020-2030 was stated as an important Horizon 2013 National Objective: to achieve eco-efficient management of resource consumption and to maximize resource productivity by promoting a pattern of consumption and production that makes sustainable economic growth possible and brings Romania gradually closer to the average performance of the other EU countries [6].

Unfortunately, as previously pointed by [7], the Romanian economy’s resource productivity was at the lowest level in EU-27 in the period 2000-2007, far below the EU-27 average since, the predominant business foci were not resource efficiency or any other sustainability concern, but more the relatively low level of labour productivity and benefiting from the predominance of labour-intensive industrial sectors, with competitive advantages based on - even though increasing - the second lowest labour costs in EU-27.

For the EU, the evolution of RP (the resource-efficiency lead indicator) seems to have been apparently good, in the last years. Thus, in contrast to the decline in material consumption, EU-28 GDP grew by 16% between 2000 and 2012.

As a result, EU-28 resource productivity (GDP/DMC) increased by 29%, from 1.34 €/kg of resources used in 2000 to 1.73 €/kg in 2012. However, despite recent improvements in resource productivity, the European consumption patterns remain resource intensive by global standards [8].

On the other hand, the latest Eurostat data show that Romania has a productivity of resources equal to 33% of the European average. The Romanian economy consumes 59% more raw materials than in other European countries, and this, together with the fact that labour productivity and capital are low in our country, puts us in the last position in the top of resource efficiency [9].

In order to check the validity of this status and the evolution of the resource-efficiency

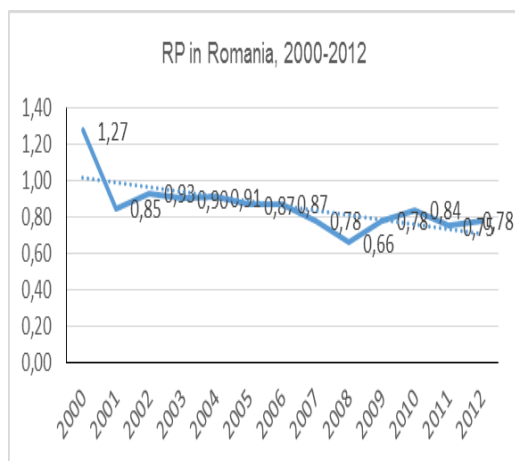
level in Romania, as expressed in the lead-indicator Resource Productivity (RP), we have made some own data-analysis and computations.

*Table 1 Evolution and trends of the RP in Romania, 2000-2012  
(Thousand lei/t, 2005 prices)*

	2000	2001	2002	2003	2004	2005	2006
<b>RP</b>	1,27	0,85	0,93	0,90	0,91	0,87	0,87
	2007	2008	2009	2010	2011	2012	2013
<b>RP</b>	0,78	0,66	0,78	0,84	0,75	0,78	n/a

Source: NIS, System of Sustainable Development Indicators, Objective no 4. Sustainable production and consumption OP4\_1 Resource productivity

*Figure 1 Resource productivity evolution and trend in Romania, 2000-2012  
(Thousand lei/t, 2005 prices)*



Source: NIS, System of Sustainable Development Indicators, see Table 1

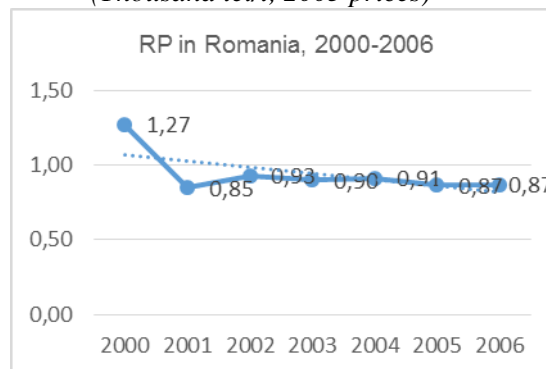
It can be seen (Table 1) that over the period 2000-2012, the evolution in Romania of the RP indicator development was quite significant and the overall trend is undoubtedly downward. For the entire period considered (2000-2012), the overall resource productivity in Romania has remained low, and has even decreased (with 38, 6% in 2012 as compared to 2002, see Figure 1).

Since this downward RP trend in Romania was registered simultaneously with an upward trend of the RP in the EU27, in 2000-2012, the resource productivity gap in Romania compared to the EU average has increased. Hence so far we have not managed to get closer to the goal of NSDS Horizon 2020: reaching the current average level of

EU countries, for the main indicators of sustainable development [5].

However, we may also distinguish here two important periods of time which may have put their mark on the evolution of the resource productivity in Romania, due to some different features and trends.

*Figure 2a Resource productivity evolution and trend in Romania, 2000-2006  
(Thousand lei/t, 2005 prices)*



Source: NIS, System of Sustainable Development Indicators, see Table 1

The first period 2000-2006 is the so-called pre-accession (to the EU) period of the Romanian economy. As we can see in Figure 2 a, in this period, the downward trend of RP is quite strong. Although the period 2000-2006 was one of economic growth in Romania, with positive rates of GDP/capita every year the RP has decreased quite sharply, the level in 2005 and 2006 being 31, 5% lower than in 2000.

The reason may be the fact that, in the period 2000-2007 of important (GDP) economic growth in Romania, the material and energy consumption remained constant or even increased, especially due to several structural deficiencies – e.g. the high share of energy-intensive sectors [7], so there was practically no effect of decoupling economic growth from resource use.

In the following period, 2007-2012, after Romania’s accession into the European Union, the RP has continued to drop to a lowest level in 2008 (Figure 1), but had a short recovery during the period of economic crisis (2008-2010) (see Figure 2b).

Although resource productivity has remained quite low, lower than before the accession (Figure 1), it is however to be noticed here (Figure 2b) a slight slow upward trend (with a forecast) which may, as we

shall analyse in future research, become a sign of a smart, sounder and sustainable economic recovery in Romania.

*Figure 2b Resource productivity evolution and trend (forecast) in Romania, 2007-2012 (Thousand lei/t, 2005 prices)*



Source: NIS, System of Sustainable Development Indicators, see Table 1

It remains to be proved whether this evolution and trend of the resource productivity in Romania was a positive effect of the economic crisis, in the rehabilitation of economic structure for a smart recovery which may, if maintained and exploited in the future, promote a model of sustainable development through a decoupling of economic growth from resource consumption in our country.

#### 4. Conclusions

Using resources more efficiently should help the European Union and the EU member states (including Romania) achieve many of the strategic objectives of sustainable development by increasing resource productivity.

A resource efficient economic development is also the route to the future green and circular economy in the European Union (and in Romania), since it allows the economy to create more with less, delivering greater value with less input. This involves using resources in a sustainable way and minimizing their impacts on the environment.

The projections of future trends (in the business as usual scenario) suggest that Resource Productivity will continue to increase in the EU, but at a slower rate than in the past. In a baseline projection, GDP is forecast to increase by around 30% between

2014 and 2030, and in the meanwhile Resource Productivity will have improved by around 15% by 2030 (by 7% by 2020) at a trend rate of 0.9% per annum) [10].

As we have pointed in this paper, in Romania, the situation of the resource productivity indicator is more complicated since here we must reverse the past (2000-2012) downward trend of the RP.

In the NSDS of Romania, some preliminary estimation indicated that the application of adequate economic policy instruments could result in a 3-4% annual increase resource productivity during the period 2008-2013.

Although this may have been an optimistic scenario, not accounting for the economic crisis of 2008-2011, our research shows a trend of slight recovery and increase of the RP in Romania after the economic downturn.

These outcomes call for further analyses in order to see which are the latest positive potential factors of resource productivity increase (such as economic restructuring, technological innovation etc.) that should be exploited in the national economy.

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# The Process of Achieving Economic Convergence Regions in Romania in Terms of EU Funds

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## Abstract

*The appearance of structural funds from the European Union, accounted for a country in full economic and financial crisis starting a point in reducing its territorial disparities at regional level. To combat territorial disparities at regional level its attempted received an allocation of resources more accurate, trying to harmonize the population needs identified with socio-economic indicators values considered indispensable for this procedure.*

**Keywords:** EU funds, territorial disparities, ROP, regression, objective.

**J.E.L. classification:** F36, O18, R50.

## 1. Introduction

Like other Member States, Romania benefit from financial support from the structural instruments for social and economic development of the country. Structural instruments distributed by the European Commission are influenced by economic, technological, social, political etc. The purpose of these funds is to combat long-term unemployment, youth unemployment, promoting rural development, development and conversion of areas affected by post-revolutionary industrial decline [1].

Starting from the overall goal and analyzing the situation of each region (of the 8 NUTS II regions of Romania) one can say that there are regional disparities in socio-economic terms to the whole country.

The role of this program, the possibility of accessing structural funds grants, is to provide a certain standard to meet the needs of each inhabitant (a minimum level of business, social and human capital) in each of the regions leading to economic growth.

The procedure of applying for European

funding is often considered to be very complex and difficult, discouraging a good many trips. Those who apply to take into account both direct financial gain and recognition of the value of the proposed project and institutional competence. The share of projects accepted for funding under the different programs varies, and those who have failed to implement a project reapplied, increasing the number of those interested in European funds and the quality of projects proposed for funding [2].

Romanian state financial allocations to every area of interest (which may be attributed either to a priority axis or key area of intervention) were based on certain key indicators. Their choice was more or less appropriate, which will be considered further in research. Research premises that led to the financial planning of resources received from the European Union is important to analyze program performance, improve it and avoid future errors highlighted along the way.

## 2. Literature review

It is inappropriate that all infrastructure investment, whatever its nature, be regarded as the result of a tactical distribution. When prompted for the amount of funds to be spent on infrastructure in a specific region government took into account both the political situation and certain economic indicators. Moreover, the government is limited to some extent by the Constitution and other laws which do not change too easily. Given these constraints, the government is obliged to justify its decision-making criteria both supporters of the party / parties and the general electorate. Therefore, to be followed objective criteria established for distribution of structural funds and voter preferences are influenced by the ideology of the party which is in government [3].

It aims to allocate funds for disadvantaged regions of the Member States to enable them to catch up with the EU average, forming the NUTS 2 regions (with a GDP per capita below 75% of EU average) with no problems qualifying for transfers structural funds from the EU's central budget. This rule outlines a discontinuous regression that leads to a probability of success of 75% [4,5].

Economic criterion is not only influencing the allocation of funds but political influence and relationships between governmental stakeholders outlines the allocation process too [6].

In 2007-2013, the transport infrastructure was one of the priorities of development and cohesion of the European Union, considering it a means of reducing economic disparities so that not less than 28% of the total amount allocated to the period being dedicated [7]. The impact of transport infrastructure on regional economic performance is shown by quantifying public road length, length or upgraded roads with light road coverings in all county roads, road transport infrastructure investments, the share of investment in road infrastructure in GDP, the volume of road transport of passengers or the volume of road freight transport.

Considering the above, and the fact that Romania is facing difficulties in terms of the degree / indicators absorption of European funds, we can say that the economic effects of these investments in any kind of need identified population is not very visible in regions, communities and the population in those areas [8].

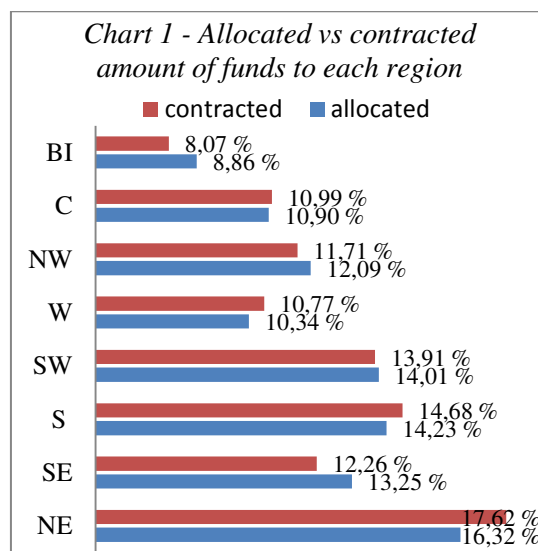
### 3. Data Framework

Absorption capacity can be defined as the ability of a country to spend in an effective and efficient way structural allocated funds [9]. Each Member State has the freedom to decide how to allocate funds for each identified need to be absorbed. Romanian needs were identified in urban development, road infrastructure, transport, social infrastructure, business and tourism. Within social infrastructure are included, in turn, several needs, namely health, social services, educational infrastructure and equipment operational bases for emergency interventions. In view of the above, we removed the need for analysis equipment

operational bases for emergency interventions as each region of the 8 accessed the same type of facilities through three applications/grant agreements. Also, the three requirements identified under Priority Axis no. 3 are different, so it is necessary to separate their analysis, given that at each key indicators have been identified totally different. Key indicators are mentioned in the section that relates econometric model.

### 4. Econometric model

Mostly Regional Operational Programme 2007-2013 is a sector that does not present a specific regional features, the only way to distinguish them is financial allocation attributed to each of them. The idea of the funding distribution was that larger sums covered by the less developed regions to prevent the deepening of disparities in regional development. According to the chart below you can see that the allocation for the Northeast region was 16.32% of the total funds allocated to the percentage allocated for Bucharest-Ilfov - 8.86%. This allocation was analyzed throughout the period 2007-2014, a period when financial allocations were made in several stages.



Source: [www.inforegio.ro](http://www.inforegio.ro) (Abbreviations for regions: NE- North East, SE-South East, S-South Muntenia, SW-South West Oltenia, W-West, NW-North West, C-Center, BI- Bucharest-Ilfov)

Comparing percentages between the funds allocated and contracted values it can be said that the proportions have been kept, regardless of shifts performed during the 8

years. The European Commission determined by ROP's Manual maintaining the objectives so that the more developed regions haven't had supplementary funding, regardless the identified needs.

The case study was based on obtaining reliable models on the seven previously identified needs. As a dependent variable was considered for each model the annual contracted value between 2007-2014. The purpose of this model is to analyze this program prerequisites to achieve its goals at all. However it should be noted that EVIEWS program was used to process the data considered important for the econometric study.

In 2007, virtually jam sensing what was to occur, both at the country level and at the EU level, it was created the non-rembursable possibility of contracting such projects funded by the European Union, possibly based on certain key indicators.

Analyzing the relationship between key indicators, specific needs for urban development and the annual contracted value beginning with 2008, it can be concluded that it was obtained a valid linear regression econometric model, with an accuracy of about 87%. Durbin Watson test value closed to a value of 2 (1.89) demonstrates there is a serial correlation of errors, Jarque-Bera value indicating slight right asymmetry which may represent an obstacle in achieving the desired objectives.

Moreover, we observed that the most important independent variables to take into account were the length of urban roads (thousand km) and total length modernized municipal streets in city streets. It can be said that the objectives considered to achieve the desired performance for this axis were as close to reality as possible, although differences between the contracted values and the effective absorption differences may appear to refute the obtained model.

**Road transport** was always a topic of national interest, there are no regional programs/ sectoral development that do not include this need in its economic growth. The difficulties the sector faces always persist, Priority Axis no. 2 being a very good opportunity for Romania in improving its quality by works to combat poor state of road infrastructure, the low level of connection between transport networks of regional,

national and European. Starting from the premises that needed to be identified by key indicators in the previous chapter can say that the most important variable is the volume of road transport of passengers (million passenger - km), and is less influenced by county roads (km). So at governmental level, the most important point of road transport has been offering the public a civilized level of travel, placing less emphasis on freight transport, which would also help to boost the economy. The econometric model is a linear regression also with an accuracy level of 97.01% and a valuable Durbin Watson, respectively 2.14. And if we can say that identified this need was met first step of the specific objectives of the Priority Axis no. 2 also it is important the absorption rate.

In Romania, needs of **health, social and educational infrastructure** have been included under Priority Axis no. 3, their direct beneficiaries coming from various areas of population. Analyzing the data of the three major areas of intervention have been obtained three linear regression models, multifactorial, thus:

- **Health.** The model has a confidence level of 71.57% and the key indicator - *the number of doctors per 1,000 inhabitants* - is the least influencing the contracted value, so we can say that the focus is more on rehabilitation, modernization and equipping hospitals /out patient hospitals than bringing more specialists in areas where the increased number of residents requires. It is required not to forget that the economic crisis has led to diminishing funds allocated to health services, which were already extremely limited in relation to the development of Romania, depriving the poor of the possibility of accessing medical services and the external migration of the medical personal. The targets set in the country and crisis in early 2009 were not harmonized so the access/contraction grants to eliminate these negative effects, as demonstrated by the asymmetry coefficient Jarque-Bera date.

- **Social services.** One of the Romanian society's vulnerability is the low quality of social services infrastructure and the limited access of the population to such services. If Romanian authorities found several key indicators in determining the amounts to be contracted (EU funds), of particular importance was the number of children in

public and private care homes, trying virtually as high allocation to these areas of interest. On the opposite side are social canteens, few in number, which by their modernization have no added value such as the possibility of giving the nourishment needed by more people than the capacity they have at the moment. Certainty level of the model was 93.43%, a high for an estimation of such premises.

- **Education infrastructure.** A linear regression model with an accuracy of 81.74% has shown that the most important aspect considered in determining/allocation for Area of Intervention 3.4 was the percentage of people 30-34 years old who graduated tertiary education including post-secondary and less important was the number of teachers. Also, among the financial and economic crisis it suffered underfunding education by the lower public spending. However, pressures on the labor market have led to an increase of unemployment, the request for skilled labor, which implicitly led to the need for high quality educational services. So we can say in the shown situation that the main objective was the rehabilitation, expansion and equipping of educational structures of any kind they might be, education level knowledge and progress must not know age limit for anyone, becoming performance for early career. It should not omit the fact that the coefficient Durbin Watson is on the threshold of significance, namely 1.60.

Priority Axis no. 4 had as prerequisites the **developing of micros** by building their own working spaces, either through provision of various technological equipment and machinery, computer, furniture, etc., depending on their sphere of activity. It should not be omitted any business structures whose purpose is to provide new spaces for rent to other companies as appropriate and equipped. With an accuracy of 90.61%, the regression model that depicted the most important variable is the number of small medium enterprises in the tertiary sector, where it can be said that we want to develop them to make contributions to the national economic growth. On the other hand, gross value added generated by small and medium enterprises has the least importance.

Tourism, regardless of the practiced type, is an area heavily influenced by economic

and financial changes being affected during the crisis phenomenon. Government authorities have tried through structural funds to provide on the one hand the investments needed for rehabilitation and historic preservation, rehabilitation and expansion of accommodation in order to attract tourists; on the other hand the organization of events, especially those with tradition. However, in this case the objectives have not been harmonized at all the indicators taken into account. Tried getting a known econometric model based on which it can make a prediction about the new programming period, who showed a higher accuracy is still linear regression, with an accuracy of about 88%. Referring to the same pattern we found that the forecasts had as main variable *the expenses arising from personal and business trips of residents abroad* in order to attract them and as less important variable *the share of expenditure in GDP generated by residents traveling*. Also to be taken into consideration that the outstanding amount is due to a high degree of media coverage and the need of rehabilitation and preservation of monuments whose intervention was necessary regardless the origin of the funds.

Above econometric study was based on the identification of econometric models for each particular field using specialized software Eviews, thus obtaining the following mathematical relationships set out below:

*Econometric models relating to areas of interest / Regression models indicators*

The necessity identified	The econometric model / Indicatory
Devel opme	$y_1 = 0,006 + 13,765 * A_1 + 9,565 * A_2 - 2,604 * A_3 - 1,125 * A_4 - 13,009 * A_5 - 7,369 * A_6 + 3,879 * A_7$

	<p><b>A1-</b> Green space / resident (sqm / resident); <b>A2-</b> Length of urban streets (thousand km); <b>A3-</b> The share of urban modernized roads in urban streets total (%); <b>A4-</b> The number of companies erased from urban (thousands); <b>A5-</b> Costs incurred by local government (billion); <b>A6-</b> Expenditures from local government in GDP (%); <b>A7-</b> Share capital expenditures of local government in GDP (%)</p>
Road Transport (y2)	<p><math>y2=0,013-36,933*B1-13,806*B2+50,138*B3+6,172*B4-0,125*B5+0,243*B6-4,789*B7+0,889*B8</math></p> <p><b>B1-</b> Length of public roads (thousand km); <b>B2-</b> Length of county roads (thousand km); <b>B3-</b> Share of modernized roads in the county roads total (%); <b>B4-</b> Share unmodernized roads in county roads total (%); <b>B5-</b> Investment in road infrastructure transport (billion); <b>B6-</b> The share of road infrastructure investments in GDP (%); <b>B7-</b> The volume of road transport of passengers (million passenger-km); <b>B8-</b> The volume of road freight transport (billion tonne-km)</p>
Health (y3)	<p><math>y3=0,006-2,766*C1+24,260*C2-13,173*C3-10,543*C4+5,584*C5</math></p> <p><b>C1-</b> The share of health expenditure in GDP (%); <b>C2-</b> The number of hospitals; <b>C3-</b> The number of hospital beds per 1,000 residents; <b>C4-</b> The number of specialized ambulatory and hospital; <b>C5-</b> The number of doctors per 1,000 residents</p>
Social Services (y4)	<p><math>y4=-12,526*D1-72,352*D2-67,662*D3+177,392*D4-14,309*D5-49,522*D6+3,139*D7+27,765*D8+9,849*D9</math></p>

	<p><b>D1-</b> The share of public expenditure for social protection in GDP (%); <b>D2-</b> The number of disabled people in Romania (thousands); <b>D3-</b> The number of institutionalized disabled persons (thousands); <b>D4-</b> The number of functional centers for disabled people and under the coordination of government; <b>D5-</b> Number of children in public and private investment (thousands); <b>D6-</b> The number placement centers for protection of children in difficulty; <b>D7-</b> The average daily number of persons receiving services offered by social canteens (thousands); <b>D8-</b> The number of social canteens; <b>D9-</b> The absolute poverty rate (%)</p>
	<p><math>y5=0,0312+7,993*E1+48,877*E2-1,554*E3+54,715*E4-103,216*E5-5,374*E6+4,931*E7-3,285*E8</math></p>
Education Infrastructure (y5)	<p><b>E1-</b> Public expenditures for education in GDP; <b>E2-</b> Number of educational institutions (thousands); <b>E3-</b> The number of school population (million) <b>E4-</b> Rate of enrollment in education of the school population (%); <b>E5-</b> The number of teaching staff (thousand) <b>E6-</b> Rates of quit early education and training system; <b>E7-</b> The share of people 30-34 years old who have completed tertiary education including post-secondary education (%); <b>E8-</b> Adult participation to continuous professional training (%)</p>
Business Environment (y6)	<p><math>y6=-0,029+3,747*F1+0,585*F2+0,395*F3-0,556*F4-7,004*F5-2,085*F6+0,808*F7+1,043*F8+3,674*F9</math></p> <p><b>F1-</b> The number of active SMEs (thousands); <b>F2-</b> SMEs number in the primary sector (thousands); <b>F3-</b> SMEs number in the secondary sector, less construction (thousands); <b>F4-</b> SMEs number in the construction sector (thousands); <b>F5-</b> SMEs number in the tertiary sector (thousands); <b>F6</b> Gross value added generated by SMEs (EUR million); <b>F7-</b> The value of exports SMEs (billion); <b>F8-</b> The average duration of micro debt collection (days); <b>F9-</b> The average duration debt collection of SMEs and large firms (days)</p>

Tourism (y7)	$y_7 = 0,006 + 12,933 * G_1 - 6,286 * G_2 - 2,069 * G_3 + 0,427 * G_4 - 2,044 * G_5 - 1,679 * G_6$
	<p><b>G1-</b> The tourists arrivals number in accommodation establishments (mil);  <b>G2-</b> The overnight stays number in tourist reception (millions); <b>G3-</b> Revenue generated by personal and business trips of non-residents (millions); <b>G4-</b> Expenses for personal and business trips of residents abroad(mil); <b>G5-</b> The share of revenues generated by non-residents traveling in GDP (%); <b>G6-</b> The share of revenues generated by residents traveling in GDP (%)</p>

Source:www.fonduri-ue.ro, www.inforegio.ro

## 5. Conclusions

Returning to the ROP's strategic objective - „supporting the economic, social, territorially balanced and sustainable development of the Romanian regions corresponding to their needs and specific resources, focusing on urban growth poles, improving the infrastructure and business environment to make Romanian regions, especially those lagging behind, more attractive places to live, visit, invest and work ", it can be said that all needs are included in this description. Therefore each is a link in the „ROP's" chain, without which society can not progress.

In the same time of creating the objective, namely to identify the needs of the population, they were analyzed different indicators to create a premise in the allocation for each Region. Their choice was not random, as demonstrated relatively close percentages and amounts proposed for contracting and actually paid, according to the Chart no. 1, it must also note that the value contracted all major areas of intervention or priority axes was 100%.

Light negative imbalances are found for urban development and educational infrastructure, but also for social and health services, which can be generated by subjective factors that can not be controlled such as local authorities wish to learn and take implying a project of this scale, the selection of independent variables that do not fit perfectly the needs of society.

Strategies analyzed showed models with an accuracy rate close to 80%, although

linear regressions were used, multifactorial in solving problems of this scale.

The models are strong linked between variables available in accordance with the analysis of Adjusted R Squared (over 88%), with the indicator Durbin-Watson (values between 1.60 and 2.30) and Jarque-Bera indicator calculation. The specific health sector model tends towards true values because the differences are very small in relation to models whose value reaches the so called utopian perfection.

One can say that it has been achieved the goal of harmonizing the strategic objective indicators analyzed for each level.

Finally, the situation must be analyzed taking into account paid reimbursements.

Only after reaching the financial goal we can say that the program is successful. At the level of implementation are many other factors that influence it, but it is a topic for a new case study.

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## A Quantitative Analysis of the Main Components of EU Sustainable Tourism, in the context of Information Society

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### Abstract

*This paper reevaluates the sustainable tourism concept, in the context of the information society and the globalization process. Thus, sustainable tourism activity in the context of the information society was characterized by a range of statistical indicators covering three pillars: the pillar of tourism activity, the environmental pillar and the pillar of the information society. Using the principal component analysis, the number of variables initially included in the analysis has been reduced to three main components: "Usage of IT technology for tourism participation" component (e-tourism), "Environmental pressures" component and the "Financial component of environment protection". Together, the three principal components explain 90.299% of the variation in the initial set of data. The results will be used in future work to build an aggregate index of sustainable tourism in the context of the information society.*

**Keywords:** Sustainable tourism, e-tourism, principal component analysis, information society.

**J.E.L. Classification:** C38, L83, O13, Q56.

### 1. Introduction. Characterization of sustainable tourism statistics in European countries related to information society

First place occupied by Europe in top destinations has conferred to the tourism sector a key role in the European economy,

generating - with its direct and indirect effects - over 10% of the EU GDP and providing employment to almost 10 million citizens, in almost 2 million businesses [1]. Promotion of the European tourism values and the increasing competitiveness in the sustainable tourism sector may get new values in the context of using the communication and information technology. Thus, in European countries, tourism market - developed in the IT & C environment - represents about 36% of total sales of the travel industry. [1]

Sustainable tourism destinations can be promoted through information technology, widening individuals' access to information in the tourism sector. This acquires great significance in the context of globalization, a process that plays a catalyst-role for the volume and efficiency of tourism activity. Promoting sustainable tourism, increasing the population's preferences for sustainable tourism destinations will enhance environmental protection actions, to maintain a high quality of the environment.

The latest European tourism statistics provided by EUROSTAT show that European residents made 1.1 billion trips for personal or business purposes, in 2013. More than half of them were short trips, (1-3 nights) and three quarters of them were travels to domestic destinations. [2]

On the other hand, the penetration of modern information and communication technology increased among European countries, so that in 2013 almost 80% of all households in the EU-28 countries had access to the Internet. In 2013 62% of all individuals

accessed the Internet daily and almost half of the individuals aged 16-74 years had ordered goods or services over the Internet at least once, for personal, private purposes. [3]

European online travel market has boomed within the last 15 years. Thus, the volume of its value in the period 1998-2009 increased from 218 to 254 billion, (1% average increase per year). The share of online sales reached 25.7% (meaning Euro 65.2 billion), increasing by over 25 times in the analyzed period (in relative expression). [4]

Quality of tourism depends more and more on environmental quality, on ecological space dimension where tourism activities are being developed. In 2012, in EU-28 countries, Greenhouse gas emissions from industry and households amounted 4.67 billion tones of CO2 equivalent (9.7% lower compared to 2000 level). [5]

Environmental protection expenditures in EU-28, made by specialized producers of environmental protection services were 145 billion Euros in 2013, representing more than half of all public expenditures. Public sector spent 87.2 billion Euros for environmental protection, while industry spent 51.6 billion Euro. The highest increase - in the period 2003-2013 - was recorded in environmental protection expenditure made by specialized producers (over 40% increase), followed by the public sector. [6]

In the EU-28, municipal waste generated was 481 kg / capita, lower than 2010-level by 23 kg / capita. Extreme values of the indicator were recorded in Denmark (maximum value: 747 kg per capita) and in Romania (Minimum value: 272 kg per capita). [7]

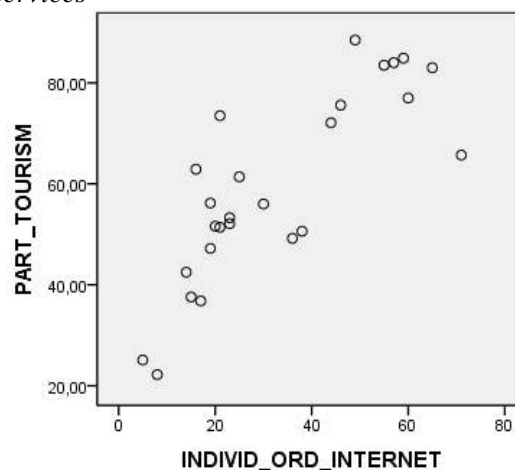
## 2. Data and methodology

The data was provided by EUROSTAT database [8], characterizing 2013 and covering 26 European countries. Processing was performed using SPSS Ver. 20 and consisted of using the Principal Component Analysis.

Originally, there were considered a total of 14 variables. The variables chosen defined three main pillars: pillar of tourism activity, the environmental pillar and the information society pillar. After analyzing the correlation matrix, there were, however, removed from the analysis some of very highly correlated

variables and some of very weakly correlated variables. Between the participation in tourism activities (*PART\_TOURISM*) and the use of the Internet to purchase goods and services (*INDIVID\_ORD\_INTERNET*) - for example - there is a quite strong correlation, but not so strong to eliminate one of the two variables within analysis (Figure 1). [9]

Figure 1. The correlation between the participation in tourism activities and the use of the Internet to purchase goods and services



Source: made by the authors, based on EUROSTAT data.

The analysis was developed on seven statistical variables: Participation in tourism for personal purposes (as a percentage of total population; duration: 1 night or over) (*PART\_TOURISM*); Greenhouse Gas Emissions (CO2 equivalent – Thousand Tones) (*GHG\_EMISSIONS*); Environmental protection expenditure in Europe - % of GDP (*ENV\_PROT\_EXP*); Protected Areas for biodiversity: Habitats Directive (Area – km2) (*BIODIVERSITY*); Treatment of waste (Tones) (*TREAT\_WASTE*); Individuals - internet use (% of all individuals) (*INDIV\_INT\_USE*); Individuals having ordered/bought goods or services for private use over the internet in the last three months (% of all individuals) (*INDIVID\_ORD\_INTERNET*);

In order to apply the principal components analysis method, the variables were standardized, using correlation matrix in analysis. All quantitative variables included in the analysis are measured on the ratio scale.

Kaiser-Meyer-Olkin Measure, pointing the sampling adequacy is 0.669, higher than the accepted minimum value (0.6), indicating that the Principal Component Analysis is suitable for the data considered. The value of Bartlett's Test of Sphericity (126.795) reveals that there is no enough evidence to accept the null hypothesis, according to which the correlation matrix is an identity matrix. Thus, we reject the null hypothesis (significance level: 0.000) (Table 1).

Table 1. Bartlett's Test of Sphericity

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.669
Bartlett's Test of Sphericity	Approx. Chi-Square	126.795
	df	21
	Sig.	.000

Source: made by the authors, based on EUROSTAT data.

In Communalities Table (Table 2) we can observe that large shares of each variable variance are explained by the principal components (shares ranging between 0.825 for GES\_EMISSIONS variable and 0.970 for ENV\_PROT\_EXP variable).

Table 2. Communalities

	Initial	Extraction
PART_TOURISM	1,000	.908
GHG_EMISSIONS	1,000	.825
ENV_PROT_EXP	1,000	.970
BIODIVERSITY	1,000	.826
TREAT_WASTE	1,000	.906
INDIV_INT_USE	1,000	.954
INDIVID_ORD_IN	1,000	.932
TERNET	1,000	.932

Extraction Method: Principal Component Analysis.

Source: made by the authors, based on EUROSTAT data.

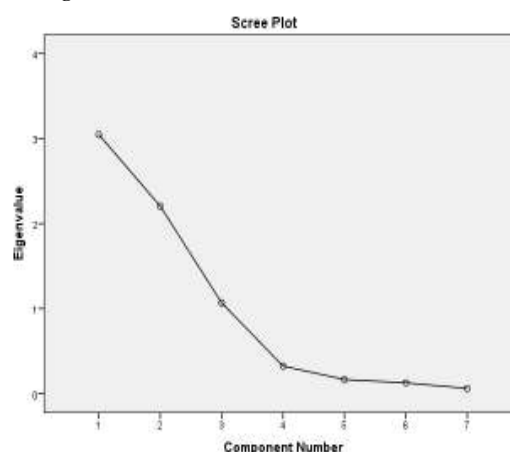
From Total Variance Explained Table (table 3), as well as from Scree-Plot (figure 2), we notice that there are three main components that can be retained, with Eigenvalues higher than 1. Together, the three components explain 90.299% of the total variation in the data set.

Table 3. Total Variance Explained

Component	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1	3.048	43.539	43.539
2	2.205	31.506	75.044
3	1.068	15.254	90.299
4	.324	4.636	94.934
5	.166	2.372	97.307
6	.128	1.824	99.131
7	.061	.869	100.000

Source: made by the authors, based on EUROSTAT data.

Figure 2. Scree Plot



Source: made by the authors, based on EUROSTAT data.

Component Matrix Table (Table 4) provides an image of factor loadings. So, the first main component is a combination between the following variables: INDIVID\_ORD\_INT, PART\_TOURISM, INDIV\_INT\_USE. The second main component is rather strongly correlated to environmental variables: TREAT\_WASTE, BIODIVERSITY, GHG\_EMISSIONS (in fact, the pollution factors damaging the environment). The third main component is strongly correlated to the ENV\_PROT\_EXP variable.

Table 4. Component Matrix<sup>a</sup>

	Component		
	1	2	3
PART_TOURISM	,777	-,527	-,161
GHG_EMISSIONS	,647	,618	,158
ENV_PROT_EXP	-,002	-,234	,957
BIODIVERSITY	,578	,679	-,176
TREAT_WASTE	,587	,723	,195
INDIV_INT_USE	,777	-,578	-,127
INDIVID_ORD_IN	,862	-,416	,129

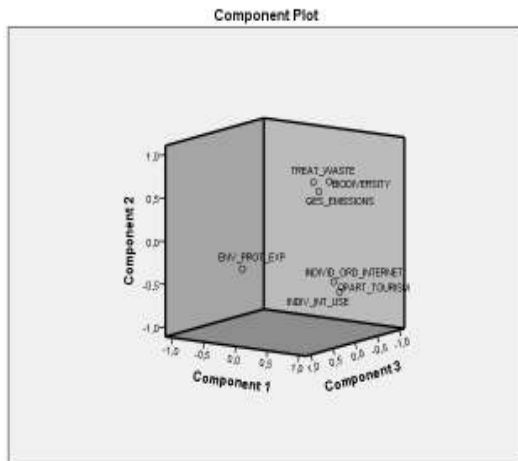
Extraction Method: Principal Component Analysis.

a. 3 components extracted.

Source: made by the authors, based on EUROSTAT data.

The graphical representation of the three principal components is shown in Figure 3, as well as their correlations to the corresponding variables.

Figure 3. Component Plot.



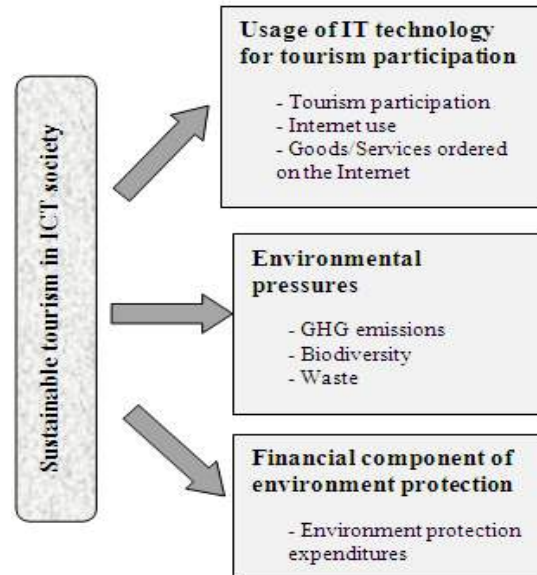
Source: made by the authors, based on EUROSTAT data.

Thus, in approaching the sustainable tourism issues, we have defined three components (Figure 4):

- **“Usage of IT technology for tourism participation” component (e-tourism)**, characterizing the IT resources used in population households (mainly the Internet access), for intensifying their participation to the tourism activity. This component is defined by three variables: tourism participation, individual Internet use and goods/services ordered on the Internet;
- **“Environmental pressures” component**, which characterizes the potential pressures exerted by an intense tourism activity on the environment: an increase of waste amounts, a reduced biodiversity, an increase in Greenhouse Gas Emissions. This component is addressed through three variables, quantifying the above mentioned effects;
- **“Financial component of environment protection”**, reflecting the reaction of the society for reducing the destructive human activities, including in the tourism

sector, seen in a financial way as the environment protection expenditures (% of GDP).

Figure 4. The three principal components



Source: made by the authors.

### 3. Conclusions and further work

Monitoring the state of European tourism is important because it can facilitate the development and optimization of sustainable development policy directions, mitigating the existing economic inequalities between different regions, optimizing the usage of local resources. First place occupied by Europe in top destinations has conferred to the tourism sector a key role in the European economy, generating - with its direct and indirect effects - over 10% of the EU GDP and providing employment for almost 10 million citizens, in approximately 2 million businesses.

Promotion of the European tourism values and the increasing competitiveness in the sustainable tourism sector, may get new values in the context of using the communication and information technology. Thus, in European countries, tourism market - developed in the IT & C environment - represents about 36% of total sales of the "travel industry". IT can facilitate the promotion of sustainable tourism destinations, can help them to obtain a major significance in the context of globalization process. This process is, in fact, a catalyst for

the volume and efficiency of tourism activity. Promoting sustainable tourism, increasing its extent will enhance environmental protection actions, to maintain a high environmental quality.

In the present work it has been accomplished a resizing process of sustainable tourism concept, in the context of the information society and the globalization process. There were identified three pillars, concerning the involvement, the participation in sustainable tourism activities through the IT technology: the pillar of tourism activity, the environmental pillar and the pillar of the information society. Each pillar has been characterized by means of statistical variables considered to be important for the domain (in total seven variables). Using principal components analysis, the number of variables has been reduced to three main components: "Usage of IT technology for tourism participation" component (e-tourism), "Environmental pressures" component and the "Financial component of environment protection". Together, the three principal components explain 90.299% of the variation in the initial set of data.

The result of the analysis will continue to be used in future work, in order to develop an aggregate index for measuring sustainable tourism activity, in the context of modern information and communication technologies.

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## Format of Strategic Planning in Cruise Shipping

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### Abstract

*In terms of the steadily growing demand for standard cruises, that is provided by the appropriate extension of the carrying capacity and expansion of the construction zone of the cruise fleet, attention should be paid to the choice of an alternative approach to the classical type of a cruise ship, as is the best appropriate for economic and social purpose of business and reflects the characteristics of the region and priority differentiation of sea tourist's priorities.*

*In modern conditions, the expansion of demand for cruise type of holiday and the formation of significant investment and cash flow, attention focuses, on the socio-economic role of the sector, respectively, there is a need to improve methods of management results.*

**Key words:** cruise shipping, local cruise zones, cruise tourists, strategies, investments.

**J.E.L. classification:** 0180

### Introduction

Elevation of the role of cruise shipping and the faster growth of carrying capacity of the fleet of the leading companies of the world determines the relevance of the development of methods and indicators of the strategic planning of infrastructure building.

However, regardless of the current state of economic and production characteristics of the cruise shipping companies, it is necessary to control the character of the solvency of the main group of consumers of sea voyages [1]. Some importance in this aspect is the state revenues and the amount of variable costs, the adequacy of the level of competition on price and quality criteria. [2] In view of the marked points, timely reaction to current

local economic situation is produced. At the same time crisis technologies must be presented constantly in the management system [3]. They are based on a system of evaluation of the markets and on the management of passenger flows with respect to the limitation of fixed costs.

In world practice, steadily growing demand for standard sea cruises usually is provided by a corresponding expansion of transport capacity on the basis of the introduction to exploitation of new ships. At the same time the expansion of the zone of construction of the cruise fleet (Chinese and South Korean shipyards are involved along with European bases,) emphasizes large-scale of renovation of the world's passenger fleet.

It should be noted, that an alternative approach to the choice the classical type of a cruise ship, is more correspond to economic and social purpose of business and reflects the characteristics of the region and differentiation priority of marine tourists.

### The purpose of the research

The main purpose of the paper is to consider the planning of development and functional activities of cruise shipping digging in the structure of the life cycle.

### Main material

Attention emphasizes on the socio-economic role of the sector with the expansion of demand on cruise vacation and formation in connection with this significant investment and cash flow focuses, attention emphasizes on the socio-economic role of the sector. Therefore there is a need for improved methods of management of results. These issues are the subject of several publications [1, 4, 5]. However, the intensity and features of the development of the local cruise areas

require basis of long-term planning principles of the carrying capacity of the fleet and other resources.

Marketing techniques of the development of the cruise market offers are constantly improving [6]. This is evidenced by the construction of the American company «Disney Cruise Lines» ship 124 thousand. Dwt and a length of 330 m. Technology with elements of fairy-tale entertainment, based on the principle of the creation of Disneyland are added to offers of a traditional holiday.

The strategy and development projects of leading cruise fleet operators basically take into account two patterns:

- Relative stability of functional-economic situation in the segment of marine vacation;
- The availability of sufficiently constant supply and consumers in terms of the comparative decline on prices for cruises with regard to their quality and scope of services.

In the structure of investment and innovation strategies, tasks of the development of passenger terminal of the port are central in the the Black Sea region in addition to the construction of a special fleet. The problem is to find a leading investment until the moment of their full impact. The steady increase in the proportion of large ships is posing an alternative to either to focus only on the basic ports (Odessa, Sochi), or search for outside investors to expand the number of host ports.

Under estimated information, since 2014 more than half of travelers is expected to serve by marine megalinera. I is enough to mention the size of such vessels: length 290 m, draft of 12 meters - and is evident problem of hydraulic engineering for the Black Sea ports.

Marine Industry of any country in the conditions of normalized development provides a complex set of socio-economic results. Therefore full-scale sea states focus attention, if not in all areas of use of maritime complex, then on the most important forms of effective extraction of sea rent. The carriage of passengers on cruise modern technologies in the local marine regions refers to one of the principal activities.

Features of the zone of operator activity define development objectives of carrying capacity and planning of the functional activities of the specialized shipping

companies, taking into account the basic requirements of marine tourists.

The choice of strategy of development of the local subsystem of the cruise shipping takes place in the following stages:

- 1) Variants of competitive strategies of the development:
- 2) assessment of dynamic and sustainable cruise shipping:
  - strategy of effective operating;
  - strategy of priority development;
  - strategy of diversification.
- 3) Functional strategies of effective positioning:
  - Management of quality;
  - Marketing;
  - Investment;
  - Strategy of priorities.
- 4) Control of the competitive adequacy;
- 5) Reaction to external economic situation;
- 6) Anti-crisis technologies.

Cruise shipping actually implements the change of priorities in the structure of goods and wealth, despite its positioning in the system of peculiar entertainment and use of free time of individual [7] . Therefore, two underrated aspects, based on its development, should be considered:

First, the intensification of cash flows based on an assessment of the individual value of sea cruise on the part of citizens savers. This form of realization of the real flow of money in the current manufacturing process reduces the imbalance between speculative capitalturning operations and cover of the costs in the functioning economy segment. In some extent, this reduces the risk of financial crises, which are based on the revaluation of corporate securities.

Character of the softer passage of phase of the crisis in the cruise segment confirms the validity of the strategy adopted by leading shipping companies;

Secondly, the maintenance of scientific and technical, investment and innovation subsystems due to the construction and operation of modern passenger liners, forms the competitive position of the country's productive capacity in the structure of priority technologies.

The assessment showed the trends in the global cruise industry [1], a new socio-economic sector practically formed, taking into account the fundamental change in the interrelation of the costs of current and future period.

Along with marked, attention should be noted on the development of the local cruise segment until the arrival of the world's major brands of passenger companies to the region on the basis of the following paradigm:

Firstly, encouraging of invest activity of ship construction of adequate class on domestic shipbuilding base by national operators. This type of vessels are not new for the program of the shipbuilding industry, and can be ensured by strategy of quality and reliability, taking into account that companies built more difficult navy fleet on scientific and technological level and on innovative technologies, before the actual collapse. Consequently, hull works and superstructure are not fundamentally new and cabin interior equipment, using modern wood processing, reached by specialists of Zakarpattia region, can provide not only quality, but also the relative savings compared with passenger West shipyards (Spain, Finland);

Secondly, the shipbuilding program for the Black Sea shipbuilding complex may be supported by the principle of cooperation, i.e. partial participation of interested countries of the Black Sea Economic Cooperation (BSEC). This condition will stimulate further improvement of technical and economic level of passenger terminals in foreign ports (Novorossiysk, Sochi, Batumi, Anatolian coast of Turkey).

That is the basis for an adequate development of cruise Black Sea Range are investment and innovation strategies, that have such significantly features as risk and capital intensity. In this respect, innovations are considered in the form of the use of ideas and projects, which ensuring the formation of effective results. Management of cash assets of the cruise shipping company, that at the disposal of the shipowner or operator, should be attributed to the most important functions of working capital. This value determines the level of the absolute company's solvency and nature of ensuring of continuous operating cycle. The function of the formation of the investment potential in the form of short-term

investments is particularly important ( Ivst).

$$R_{vm} = [ \sum P_{cci} N_{ci} - C_{spt} - \sum F_k h_k p_{cr} - \sum W_c G_c (1+b) ] \geq \geq I_{vst} (1+d_s)^t - A_{tx} \quad (1)$$

$P_{cci}$  - cruise rates by category of quality of offered services on board in accordance with the category of the ship ( i );

$N$  - planned (estimated) passenger occupancy of the liner;

$C_{spt}$  - the sum of expenditure on relevant vessel calls at the port under the current conditions ( j );

$h_k$  - parameters of consumption (use) of resources (agents of production

$(F_k)$  – factors of production, that ensure the efficiency and safety of operation activity;

$P_{ck}$  - the market price of the used resources;

$W_c$  - the normative of forming of working capital;

$G_c$  - resource group (or services), that predetermining periodic updating of working capital;

$b$  - the share of used funds, that predetermine the adjustment of cash flow due to their non-standard;

$d_s$  - the deposit rate in the settlement period;

$t$  - the number of periods of short-term financial investments;

$A_{tx}$  - the value of tax deductions, taking into account payments for the loan.

Solving of these problems predetermines variation of appearance of alternative strategic situations. Therefore, the model of improving technical and economic level of shipping companies, depending on the segment of the two states, is reviewed. [8] In a situation when the flow of cruise passengers exceeds the carrying capacity, which in the recent past is characteristic of the Dnieper cruises, formed two strategies. On the one hand - competitive development based on the launching into exploitation new transportation capacity, and in case of its



impossibility, the strategy of effective positioning, which includes a monopolistic position and on the basis of the main law - increasing of tariff rates, providing subsequently financing of new projects.

Antipode of strategy above is excess of transport capacity of passenger traffic, which is typical for the state of Danube segment of passenger fleet UDP. In this case, two strategies are implemented: first - the completion of the project, which is based on the decommissioning from exploitation obsolete vessels. The second - an alternative to this strategy is the diversification strategy, which is based on two approaches: either to change the positioning of the region, or the optimization of interrelation of price and quality, supporting shipping and passenger traffic level. Ukrainian Danube Shipping Company preferred first strategy for its cruise ships. As a result, the port Izmail was excluded from the basic ports, with negative consequences for all forms of the budget.

The functional strategies, such as management of quality, marketing, investment and innovation, have to be implemented along with the development and diversification strategies.

## Conclusions

At the heart of the potential development of cruise shipping in the Black Sea region is an increasing demand for sea travel of citizens of the former Soviet Union. The value of such rest is comparable the cost of the rest in the resorts of the Black Sea coast, but the quality is higher. It should be taken into account, a considerable number of citizens from Russia, Ukraine, Kazakhstan and Belarus purchase trips to expensive cruise ships. One form of the account of this factor becomes a regular ship-calls to ports of Odessa, Bulgaria and Romania, that reflects two trends in the global cruise market: the economies of scale (large-capacity ships) and increase of the perceived value of a sea voyage on the basis of high-quality services.

Taking into account the priority of positioning of the national flag in the global shipping industry, emphasis of attention on a gradual basis of cruise space of the Black Sea with the assistance of the share capital and concession capital should be considered as an important.

Considerable experience in the implementation of cruise technology by global brands allowed to appreciate the potential of the Black Sea cruise. The optimization of interrelation of price and quality of passenger service is considered as the base of development in the initial period. According to the forecasts and the actual results of the 2010 - 2013's, leading cruise companies paid special attention to the cruise market of the Black Sea. According to CLIA, increase in ship calls of cruise ships in the Black Sea in 2013. was 37%, compared to 2012. Number of cruise passengers who have committed tours in the Black Sea region in 2013 reached 303,695 passengers, or 30% more than in 2012 [9].

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## A Short Analysis of the Romanian’s Main National Accounts Tax, GDP, General, Central and Local Government and Unemployment Rate Between 2005 and 2014

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### Abstract

*The present paper reveals the results of a short a short analysis of the Romanian’s main national accounts tax, GDP, general government, central government and local government and unemployment rate between 2005 and 2014. The method consist in simple graphical representations of the above indices and the analysis and comparison of their evolution. The main goal is to determine the unemployment evolution and the possible influence of the other mentioned indices over it. The conclusions where that from the values analyzed the unemployment was not influenced by a certain level of government expenditure. Also the unemployment and the GDP do not obey totally to Okun's law.*

**Key words:** tax, GDP, Central and Local Government

**J.E.L. classification:** E22, F43

### 1. Introduction

Like in most mathematical (and not only) models, also in most economic models, the output is proportional with the inputs, in the terms of levels, especially considering the capital and labor. Considering this, we might think that the deceasing the unemployment under its natural rate might result the output rising above its potential, and vice versa. This way of thinking conduct economist Arthur Okun to attempt to discover and develop a relationship between these two variables [7]:

1) the variance between the level of output

and its potential;

2) the variance between unemployment and its natural rate.

As a consequence of the study conduct by Okun for the potential and the natural rate, he revealed a strong empirical relationship between changes in the unemployment rate and output growth. In 1962, Okun showed the used of data on the quarter-to-quarter difference in the unemployment rate and quarter-to-quarter growth rate of the real gross national product (GNP) from 1947 to 1960. So, he projected that if the real have no growth, the unemployment rate should raise with about 0.3 percentage points, from one quarter to the next. Also, when the real GNP grown with 1-percentage-point the unemployment rate should decrease with 0.3 percentage points. This number was latter called by the economists the Okun's coefficient. This empirical rapport is used with unchanged form for 50 years. It is interesting to emphasize that, even the Okun’s law was a purely statistical correlation and successive studies have tried to determine theories explaining the existence of Okun's law, its original expression has been used in in classrooms, policymaking and in the media [7].

Unemployment: because it indicates how well an economy is using its resources the rate of unemployment is a key macroeconomic variable. We should say that unemployment cannot be zero, because of the frictional and structural unemployment even in the condition that the economy of a state or geographic area it’s functioning at full capacity.

The frictional unemployment is

considered to be determined by the time consumed to match workers and jobs. Because of deficient information regarding job vacancies, relative geographic immobility of the workers and wage inflexibility this time period can fluctuate quite a lot. The continuous changing in the sectorial or regional type of requested jobs is determined by the demand for goods shifts over time. That will make the workers to adopt more time to adjust to this continuous changes [8].

## 2. Descriptions

As Eurostat defined *General government sector* as defined in ESA2010 (paragraph 2.111-  
[http://ec.europa.eu/eurostat/cache/metadata/en/gov\\_10a\\_main\\_esms.htm](http://ec.europa.eu/eurostat/cache/metadata/en/gov_10a_main_esms.htm)) includes "institutional units which are non-market producers whose output is intended for individual and collective consumption, and are financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth"[1].

Also according to ESA2010 (paragraph 2.112) the general government sector includes the following institutional units [2]:

- a) *the general government units* has judicial authority over other units in the economic territory and manage and finance a group of activities, that mainly providing non-market goods and services, all of those planned for the benefit of the entire community;
- b) *a corporation or quasi-corporation* which is a government unit, if the government unit controls its output that is mainly non-market;
- c) *non-profit institutions* controlled by general government and that are the independent legal entities and non-market producers;
- d) *autonomous pension funds*, managed by the general government with the respect of the clearance and consent of contributions and benefits and there is a legal requirement to contribute.

The sub-sectors of the central government represent institutional units that are assembled as the central government plus the non-profit institutions (NPIs). Those units must be controlled and mainly financed by

central government. Thus, the central government has therefore the authority to enforce taxes on all residents and non-resident units engaged in economic activities within the country [2].

The *central government* is an administrative body for a small geographic area, such as a city, town, county, or state.

The *local government* have control over their specific geographical region. Also, the local government cannot pass or enforce laws that affect geographic area larger than the one that is specific to their legal region. In their action and activity, the local governments should enact taxes, elect officials, and activate as the national government, but on a smaller scale, regionally and financially [3].

The state and the local governments cannot earn arbitrage profits as the results of investing tax-exempt proceeds in higher-yielding investments [4].

The *main national accounts tax aggregates* can be explained as the total receipts from taxes and social contributions (that includes the imputed social contributions). We must emphasize that the amounts of deduction considered will never be collected *in integrum*.

The unemployment rates can be defined as the number of persons that are unemployed and is calculated as the percentage of the labor force.

The labor force represent the total number of employed and unemployed people. The unemployed persons include the persons aged from 15 to 74 who were:

- a. without work during the reference week,
- b. they are currently available for work, i.e. were available for paid employment or self-employment before the end of the two weeks following the reference week,
- c. also they actively seeking work, that means that they take specific steps in the four weeks period ending with the reference week to seek paid employment or self-employment or who found a job to start later, i.e. within a period of, at most, three months [5].

## 3. Method and analysis

The method consist in simple graphical representations of the above indices and the analysis and comparison of their evolution.

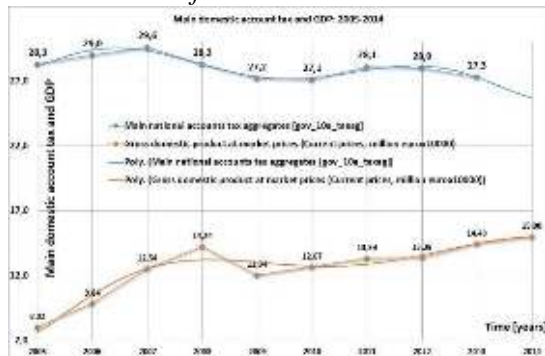
The main goal is to determine the unemployment evolution and the possible influence of the other mentioned indices over it.

As many researchers tries to apply mathematical models to the real values, the authors of present paper want to use raw data without any function determination and use.

Thus in table 1 all indices are presented as they are collected from European Commission Eurostat website and put together by the authors.

Considering the real data values presented in table 1, the authors developed simple representation using windows excel software and determined the figures 1, 2 and 3.

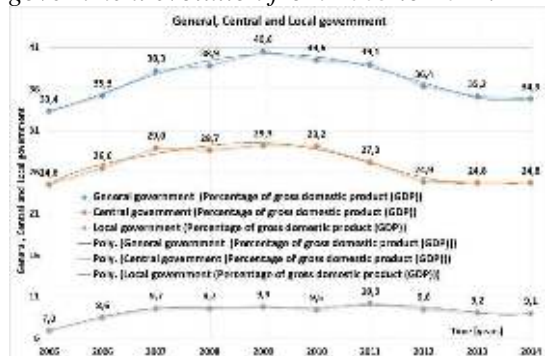
Figure 1. Main domestic account tax and GDP evolution from 2005 to 2014.



Source: Our own graphic representation.

In figure 1 Main domestic account tax and GDP evolution from 2005 to 2014 were presented and the following conclusion was drawn: as the GDP has one inflection point in 2009 due to the financial crisis, the Main domestic account tax has its lowest value in 2010 and after a short rise in 2011 is falling since then.

Figure 2. General, Central and Local government evolution from 2005 to 2014.



Source: Our own graphic representation.

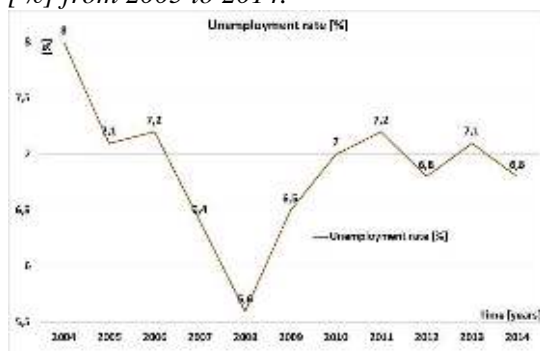
Table 1. Main national accounts, General government, Central government, Local government, Gross domestic product at market prices evolutions from 2005 to 2014.

Year	Main national accounts tax aggregates [gov_10a_taxag]	General government (Percentage of gross domestic product (GDP))	Central government (Percentage of gross domestic product (GDP))	Local government (Percentage of gross domestic product (GDP))	Gross domestic product at market prices (Current prices, million eurox 10000)
2005	28,3	33,4	24,6	7,0	8,02
2006	29,0	35,3	26,6	8,6	9,84
2007	29,6	38,3	29,0	9,7	12,54
2008	28,3	38,9	28,7	9,7	14,24
2009	27,2	40,6	29,3	9,9	12,04
2010	27,1	39,6	29,2	9,5	12,67
2011	28,1	39,1	27,3	10,3	13,33
2012	28,0	36,4	24,9	9,6	13,38
2013	27,3	35,2	24,8	9,2	14,43
2014		34,9	24,8	9,1	15,00

Source: Our own table structure considering the data from <http://ec.europa.eu/eurostat> [6].

In figure 2 the general government, central government and local government expenditure are shown. As we can see the general and central maximum values were recorded in 2009, while the maximum for the local government was registered in 2011.

Figure 3. Unemployment rate evolution [%] from 2005 to 2014.

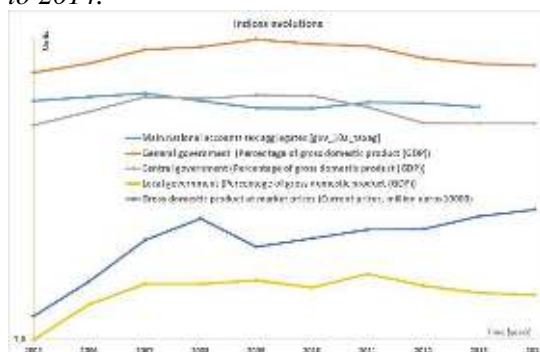


Source: Our own graphic representation.

In figure 3 only unemployment rate evolution from 2005 to 2014 was graphically represented as its evolution is the most heterogeneous one. Here we can see that the lowest value is encountered in 2008. After this time the highest value is in 2011, also the highest value (considered after the financial crisis) for local government and main domestic account tax.

For a better understanding of the indices evolution and the way that can be observed as relatives of each other evolution, figure 4 was elaborated

Figure 4. All indices evolution from 2005 to 2014.



Source: Our own graphic representation.

The figure 4 reveals, by the evolution of the data values for the five indices, that the general government, central government, local government has almost the same evolution, but looks like it is inversely to the main domestic account tax. Regarding to the gross domestic product, its evolution do not have any direct or indirect similarity with any other from the four indices

#### 4. Conclusion

The authors conclude that no expenditure form the government levels mentioned here was more relevant in influenced for the unemployment evolution. As the general government, central government and local government had tendencies with lower differences in evolutions and almost no inflection points after the financial crisis, the unemployment rate was far from enabling a easy to find tendency with several infection points. Thus the difficulty of knowing the real influence of government over the unemployment.

Considering the same comparison between GDP evolution and unemployment, the Okun's law was not entirely obeyed, especially after the financial crisis. This can be translated in the way the GDP was “spent” in relation with the influence over the unemployment.

The main domestic account tax tendency has an opposite direction with GDP and the same evolution tendency with the general, central and local government.

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# Prospects of Yacht Tourism Development in the Black Sea Region of Ukraine

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## Abstract

*The article describes the principles of yachting as a form of business. The reasons that interferes the development of the yacht business in Ukraine were analyzed. The directions of perspective development of yachting facilities were defined. The legal, economic, political and organizational mechanisms of promoting the development of yacht tourism network companies were offered.*

**Key words:** yacht tourism, yacht complex structure, yacht tourism companies and marines.

**J.E.L. classification:** 0180

## 1. Introduction

Yacht tourism today is a type of tourism that is developing most dynamically. In many countries it's a prospering business that includes hundreds of thousands of yachts, charter companies, shipyards, an extensive network of yacht harbors in various regions of the World ocean.

The Black Sea coast of Ukraine, due to a unique combination of climate and geopolitical conditions, is the most perspective place in Ukraine for the organization and development of yacht tourism. In addition to recreational and natural-climatic potential, the Black Sea region has strong employment potential that based on large number of skilled professionals in various sectors of the national economy. However, the existing resource potential is almost never used, and the condition of development of yacht tourism not only behind the advanced

countries, but does not match the requirements of modern society.

Thus, the problem situations are insufficient use of the potential of the Black Sea region, the discrepancy of yacht tourism developing to world standards in all its components, missed opportunities of domestic enterprises to obtain additional profits (and sometimes opportunities to avoid bankruptcy).

## 2. The purpose of the research

The purpose of the article is to analyse of the yacht tourism network companies development in the Black Sea region of Ukraine and determine the the direction of long-term development of the branch.

## 3. Main material

Yacht tourism - one of the most perspective types of cruise tourism, which is growing steadily and occupies a large share in the segment of this business sector. The developed maritime countries develop not only yachting, but also business because, it brings sufficient income, despite the high costs. For example, revenue from the yacht tourism in Turkey has increased over the last 15 years by 70% and it is about a quarter of profits from the country's tourist industry. In Greece, the gains of yachting business left behind the hotel business.

By the way, according to the report of Camper & Nicholsons, which has positioned itself on the world yachting market and annually publishes a report about the state of the industry - SuperYaching Index, while searching for the sector, which could be compared with freight yacht market, find out that the industry of hotels or villas is closest to it. Food, rooms, service, etc. Most

superyacht, that are presented for chartering, are more than five-star luxury hotels, but in comparison - hotel business is more appropriate to use.

Usually hotels have three indicators that determine their profitability: the level of occupancy (OCC), the average daily rate (ADR) for the room and the most important - the income from the room (RevPar). The latter is calculated as the average revenue per room for night. Hotel rooms usually are available for renting throughout the year. Applying these figures to yachting, RevPar becomes RevPaw – income for available week, expressed, in this case, as revenue divided by the number of weeks available for charter of weeks. This figure reflects how yacht is successful.

Of course there is a difference in price of weekly voyage for 12 guests in comparison to the cost of the hotel rooms, but taking into account that also all private boat spaces, including dining room, terrace, spa are rented too, such rent of yacht are equivalent to private use of luxurious hotel. Moreover, the presence of the crew and the captain of the yacht, that paid attention only to guests, increase comfort levels higher than even in the best hotels [1].

Black Sea area is virtually unexplored district of navigation for yachtsmen. Is yacht locations are not even established till the present time. But this moment does not mean lack of interest of potential yachting tourists to this region. Instead, travelers can be attracted by small yachts saturation, while virtually all large centers of yacht tourism formed a significant shortage of anchorage places in recent years. For example, in the Mediterranean basin - more than 700 thousands yachts, and its number is continuously increasing, and therefore there are serious problems with their basing and service. Totally there are about 1,5mln. anchorages for yachts in Europe.

Building of network of yacht marinas, that meet international standards, on the Ukrainian coast, would provide favorable conditions for the development of yacht tourism and related services in the region. The involvement of yachts from Mediterranean basin and formation of positions in the market of yacht tourism should be considered as aim. This will create more jobs, replenish local and state budgets

by funds paid by tourists for services and purchases. It is obvious that the development of yacht tourism will increase profits in other areas, not just in the maritime field. Apart from port fees and charges for anchorage, yachts tourists use the services of shops, cafes, travel agencies and more. In addition, local experts are provided by work, in case of necessary minor repair of the yacht.

However, a number of problems prevents formation and operation of the yacht tourism in the Black Sea:

- There is no classification system of yachting ports, harbors and anchorages of yacht clubs in Ukraine, there is no officially confirmed hardware requirements for yachting ports, their functioning and control systems for the completeness and correctness of its basic functions. Historically yacht ports in Ukraine were built and developed, mainly to preserve yachts, boats, motor boats, that belonging to the yacht club and private owners, in summer and winter.

- Small shipbuilding on the industrial basis did not get development in our country according to a number of reasons and features, and pleasure travel vehicles, that was made in small series by individual companies, was not of high quality. The overall economic situation in the country affected to the manufacturers of yachts.

First, large obstacle for all the shipyards is the lack of working capital. Virtually any shipyard is not able to build vessels turnkey at their own expense, to participate in major exhibitions and conduct advertisement campaigns. Poor discipline in terms of orders, low labor productivity, financial problems, untimely payment of wages and unstable financial position of Ukrainian shipyards caused a significant decrease in capacity of enterprises [7].

The lack of purposeful public policy in the development of small shipbuilding, high cost of loans and virtually no banking schemes of financial provision for the construction of vessels leads to dispersion of resources and reduce the efficiency of enterprises of small shipbuilding. Secondly, there are no qualified professionals in building of yachts.

- The desire of Ukraine to integrate into the world economy and effective interaction with the global trading community cannot be done without opening up its own market of

goods and services. In present time market of sailing yachts is protected from access of foreign producers by high taxes and customs duties. For example, the price of yachts, imported from Poland to Ukraine, is growing more than in a half.

- It should be noted that one of the main factors, that restrain the development of yacht tourism in Ukraine, is the inadequacy of national legislation, that regulate the enter and sailing of yachts in Ukrainian waters. First of all, it concerns definitions. Worldwide yacht is a vessel for walks. In Ukraine, yachts have no separate category, they fall under the classification of "cargo-passenger" vessels. This leads to the fact that the yacht, that crosses the border of Ukraine, is required the same documents and permits, as well as really big ship. Worldwide the yachts need a few documents for entering: crew list, the ship's log and the log transit document, in which customs, border guard service put their mark.

- The lack of a systematic approach to the management of yachting. Owners, skippers of yachts, brokers are working, guided by their own ideas, but not approved procedures. The main disadvantages of this are: lack of coordination in the planning and management of cruise yachts and lack of complex use and protection of recreational resources.

There are three crucial aspects in the development of yacht tourism in Ukraine. Firstly, there should be the possibility of creating conditions for a comfortable and safe yachts anchorage. Secondly, the formation and functioning of yachting are impossible without yachts. This point involves the development of small shipbuilding. Third, a significant factor in the development of yacht tourism is creation of legislative regulatory framework, that governing the enter and navigation of yachts in Ukraine.

Well-developed network of yacht clubs are needed to become really attractive coastline for tourism and shipping. Due to the fact that the construction of marinas is expensive, perhaps, it will be appropriate to use the experience of Denmark, where the port practiced joint marketing of the whole region, thus builds up a unified system of yacht tourism, in which each port is not seen as a competitor but as a "supporting element

"of the whole chain, existing along the coast. Joint marketing is one of the basic principles of network and plays an important role in reducing the costs to promote each marina. Information about the possibility of visiting the entire network ports leads to attracting a large amount of tourists. Despite the poor performance of recoupment of each port individually, infrastructure has a significant impact on comprehensive economic development of the region as a whole, so-called "indirect effect", i.e. the main impact of the ports is to increase revenues of enterprises of tourist sector.

The second problem - the construction of yachts, can be solved by national shipbuilding base, which has long experience of building ships. Development of small shipbuilding would create conditions for the birth of integral part of the infrastructure of yacht service of domestic and guest(foreign) motor and sailing yachts [6].

A brief analysis of the situation on the market of small shipbuilding production gives an opportunity to suggest, that the yield of Ukrainian yacht-builders to foreign market is the only way to develop the industry. Among the factors, that contributing to release of small Ukrainian shipyards on the foreign market, are following: low cost of labor, very high quality of work, reasonable price of products, shipbuilding popularity of Ukrainian products on potential markets [5].

One of the main factors, that hindering the development of yachting is the lack of state support in the industry. The effective state mechanism makes the development of this type of tourism really possible. The solution is seen in the development of legislative legal acts, which would include: identification of tourist regions, zones and centers on state level; to ensure the harmonious inclusion of tourism in the overall economic mechanism; security of tourist activity, including safety of sea travel; information provision of maritime tourism; to provide tax incentives to small shipbuilding companies in the way of their development; creation favorable investment climate for tourist enterprises, making activities in areas of yachting, and more.

Because of named reasons, Ukraine practically does not participate in this segment of maritime trade with significant monetary circulation.



In this regard, the directions of perspective development of yachting facilities are following:

- Placing of yachting complexes in the structure of the city and beyond its bounds, considering the formation of a network;

- Introduction of modern technologies in the construction of complexes, particularly in organization of storage, maintenance and repair of swimming facilities;

- Formation of architectural and planning structure of yacht complexes to modern standards of service vessels and their users;

- System development of the regulatory framework for the design and construction of modern yachting complexes [2].

Two options for the structure of the yacht industry can be offered for the Black Sea region of Ukraine. First variant provides integration of yacht complex to the structure of a larger object: seaport, sports and entertainment center, park, residential area. In the complex structure, the composition of objects, that service the ships, contains only places for mooring, sites for "dry" storage, workshop for small repairs of vessels. Dispatching, hydrometeorological and rescue services, border and customs control, medical center, apartment complex of administration and mess room are located in the area of receiving -administrative objects. Public catering companies are cupboards, dining, bars; retail and consumer services - kiosks and pavilions for the sale of essential goods and specialty goods of yachting, rental facilities and swimming gear. Sports and recreation, cultural and recreational services and housing are provided to users of yacht complex in the object, with which the complex associates.

The second option of architectural-planning structure involves the most extensive list of objects of ship's maintenance: compared with the first option, boathouses, including ship repair, for not only current, but also overhaul are added. Guests of yacht complex are provided by various social services. Catering are well represented well - cafes, canteens, restaurants of different types. The complex also forms a network of trade, including shops, different profile trade (food, manufactured and specialized), pharmacies, kiosks press. Various facilities for sports, recreation, leisure, such as sports halls and playgrounds,

swimming pools and fitness clubs, children's towns, areas for picnics with barbecue and others are provided. Residential objects of complex are presented by hotels (including Floatel), motel, individual and apartment buildings of different heights. This complex is the core of the resort and tourist area and its social center [3].

#### 4. Conclusions

To encourage the development of yacht tourism it's necessary to develop and implement economic, legal, political and institutional mechanisms.

Formation of political and legal mechanisms to encourage the development of yacht tourism are outside the competence of the specific business entities that necessitates the formation of a separate mechanism of yacht tourism network companies development as part of the mechanism of state regulation and management at the yacht tourism companies level.

It's necessary to take measures to reduce the level of political risks in business activity in yacht tourism at the governance level that will promote a positive tourist image of Ukraine.

Implementation of legal mechanism methods involves the development of national legislative and regulatory base acc. to the Mediterranean countries experience and would allow to solve the problems in this area for a civilized level.

Economical mechanism of yacht tourism network companies development stimulation provides, above all, the formation mechanism of state support for the development of yacht tourism enterprises which include a wide range of economic instruments: partial subsidy on loans to domestic banks for the construction of yachts and marinas, providing financial incentives, increased funding for science and technological development in yacht tourism branch, financing programs of children's sailing and providing small tonnage shipbuilding enterprises with state contracts, development of leasing yachts built by domestic shipyards, and so on.

Organizational management mechanism designed to mobilize the ability to influence the entire system of management mechanisms of a different nature on all aspects of the company and is consists of the

strategic management of the organization which, because of the instability of the enterprise environment, is characterized by specific models of program management, and operational and organization of the current administration, which is inherent in the combination of target and functional management [4].

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## The Role of the Caspian Region in World Energy Security and Diversification of Energy Supply

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### Abstract

*In the nearest future the Caspian Sea region will play an increasing role in the Europe energy supply. It became one of the main suppliers of oil and natural gas to the world market. Foreign players show the increased interest to the energy potential of the Caspian Sea. The issue of estimating oil and gas potential of Caspian region has gained international political and economic importance. At the same time "Caspian - Europe" has now not only economic but above all geopolitical contradictions. It concerns the issues of the sea waters and the coastal areas, which are rich in energy resources. Analysis of energy resources data of the region shows the differences in the estimates due to political and economic interests of key players. The potential of the Caspian region in natural gas supply is analyzed in this article. The possibilities of infrastructure diversification of energy supply in the global market are evaluated in this research.*

**Key words:** energy resources, energy supply, Caspian region, diversification, energy security.

**J.E.L. classification:** Q41.

### 1. Introduction

Energy plays an essential role in economic and political life of any country. As strategic resource energy provides security, defense and prosperity, improves living standards of the population, as well as guaranties political stability and sustainable development of the economy. Energy

production, recycling and supply on the world market create new opportunities for the economic development of the country and strengthen its role in international aspect. This article is devoted to the research of the Caspian region potential in the international energy supply and justification of energy supply routes diversification in modern conditions.

### 2. Main text

Since the 90s of the 20th century to the present, economic and political changes influence on the growth of energy resources value in the world economy, what also effects on the growth of the risks arising from lack of their diversification. From the point of energy resources supply on European and the world market Caspian region is very important.

In the Soviet period, excepting only oil exploration in Azerbaijan, the Caspian Sea potential has been largely untapped. After the collapse of the Soviet Union, the countries of the region gained access to the strategically important raw material base of the Caspian Sea. However, they used a variety of approaches to the formation and development of the energy sector. Regional governments' cooperation between the Caspian countries should contribute to improving the energy supply, which will improve the export indicators.

The ability of particular country to increase natural gas exports depends on how quickly it can provide infrastructural the supply of energy resources to world markets, that means the ability to develop and implement the necessary investment projects.

Estimation of Caspian Sea energy

resources is significantly different at the regional and international levels and till nowadays there is no generally accepted estimated value.

Thus, on the EIA's (the US Energy Information Administration (EIA)) estimation in 2004, the Caspian Basin has 232 trillion cubic feet of natural gas [1].

However, according to the report, published in June 2010 the proven gas reserves decreased compared with previous forecasts (Table. 1). [2]

*Table 1. Evaluation of main Caspian countries proved oil and gas reserves*

Country	Proved oil reserves, billion barrels	Proved gas reserves, trillion cubic feet
Kazakhstan	30	2,40
Azerbaijan	7	2,0
Turkmenistan	0,7	7,94

The main developer of gas reserves is Turkmenistan. Azerbaijan, Kazakhstan, and Turkmenistan have already concluded numerous agreements with the large oil companies from the USA, the UK, Norway, Netherlands, Italy, Japan, Saudi Arabia, Oman and Russia to develop oil and gas areas of the Caspian Sea.

Only in Azerbaijan 33 oil companies from 14 countries, including Russia are working on the implementation of 17 major oil and gas projects. Several international oil and gas consortium also created in Turkmenistan.

**Azerbaijan.** Azerbaijan, which has historically been an oil producing country, gradually acquired the function of a natural gas producer. Natural gas mining is carried out mainly in the Shah-Deniz area, which was discovered in 1999. Gas is supplied by pipeline through Turkey to the South Caucasus.

**Kazakhstan.** Gas production in Kazakhstan is mainly carried out in the greatest Tengiz area.

**Turkmenistan.** Today Turkmenistan has not only a huge land and sea resource base of hydrocarbons, but also the possibility of its use. Experts estimate the total hydrocarbon resources potential of the country up to 71.2 billion tons of oil equivalent, 18.2 billion tons are in sea area. Currently, Turkmen gas is exported in three directions: in Russia, Iran and China.

Despite the active development of

reserves in the Caspian region, there are at least two challenges appeared. The first one is related to the dividing of the Caspian Sea into spheres of influence among the riparian countries, and the second - with a choice of the best ways of hydrocarbons transportation from the Caspian region.

The problem of Caspian Sea legal status is really quite complicated. Today, five countries have access to the Caspian Sea and they cannot reach a common position on this issue. If considering the Caspian Sea as the sea, its area (similar to the North Sea) should be divided in the sectors among the coastal countries. If considering the Caspian Sea as a closed lake reservoir, the use of the water area has to be shared, without any distinction. Only gradually, after much debate, Caspian counties agreed on the compromise principle: "Water is common, and the bottom is divided."

This means that the water area of the Caspian Sea with its biological resources must remain in the common ownership of the five countries - as a united and indivisible. Nowadays coastal countries opted for bilateral cooperation.

Even more difficult is the problem of transportation of oil and gas, the main part of which production is intended to Europe. This complexity is primarily due to two main factors: geopolitical and economic.

The essence of the geopolitical factor first of all is in the peculiarities of the political and geographical situation in the Caspian region.

The peculiarities of transport and geographical situation of the Caspian region, which is thousands of kilometers away from the main oil and gas markets is the essence of the economic factor. This means that the system of oil and gas pipelines should ensure both maximum bandwidth and minimum investment and suitable transit tariffs for companies.

Today there are three major infrastructural objects operating on the European direction:

- Caspian pipeline;
- South Caucasus Pipeline;
- Turkmenistan-China pipeline.

**Central pipeline system (Caspian pipeline).** The system was developed in 1960-1988, and is transporting natural gas from the Caspian Sea to the north of Russia, where joins with the Russian pipeline system.

Also there is functioning Caspian gas pipeline from Turkmenistan, which transports Turkmen and Uzbek gas.

**South Caucasus Pipeline (SCP).** This pipeline delivers natural gas from the Caspian region to Georgia and Turkey. Start of the pipeline operation began in 2007 and has 180 billion cubic feet of natural gas transportation capacity.

**Asia Export Markets (Turkmenistan-China pipeline).**

Oil consumption in China has increased significantly, so China began to invest in oil and gas resources in the Caspian Sea.

Japan is also interested in the transportation of Caspian oil and natural gas to satisfy the growing needs of the economy. Thus, Japanese banks are interested in financing the projects of pipelines development. One of them is the Caspian Pipeline Consortium, which could increase the potential of oil on the world market.

India and Pakistan Economies are also characterized by increasing energy demand, so these countries are interested in development of pipeline, which will connect Turkmenistan and India. This will deliver gas from Turkmenistan to the growing Asian market, and generally to diversify natural gas exports.

The implementation of Caspian "Nabucco" project, which will increase the energy security of the region, is important to diversify gas supplies to the Europe. It is intended for the transportation of Central Asian gas via Georgia and Turkey. "Nabucco" project was launched in 2002, but was postponed several times due to lack of sufficient capacity of gas supplies. In June 2013 it was announced that the project was closed and declared a priority in the development of the Adriatic pipeline.

Gas corridor from Azerbaijan to Europe "Nabucco" was developed in parallel with the "South Stream" project. Experts claimed that Azerbaijan does not have enough gas to provide the "Nabucco" project fully.

However, in the current difficult political conditions between EU and Russia, experts have begun to find new opportunities to diversify gas supplies and Azerbaijan project received a second chance for implementation. It is planned to fill the pipeline, not only with Azerbaijani gas, but also to transport the gas from Turkmenistan.

For the delivery of Turkmen gas to the pipeline "Nabucco" it is also necessary to construct new pipeline. To do this, it is important to solve the problem of legal uncertainty of the Caspian Sea. It is expected that the Convention on the legal status of the Caspian Sea, which is agreed at 80%, may be signed in 2016 at the summit in Astana.

The main advantages of «Nabucco» are as follows [3]:

- reducing of Eastern European countries dependence from Russian gas;
- project is open for different competing gas transit suppliers, what will protect consumers from monopoly pricing;
- encourage the researches of new gas areas in the Caspian region.
- the development of a trans-Caspian pipeline that connects Turkmenistan, Uzbekistan and Kazakhstan as a supplier of natural gas to European markets bypassing Russia;
- reducing of political, economic and environmental risks and threats.

### 3. Conclusions

The results of the research suggest that there is no common accepted estimation of the Caspian region energy potential both on international and national levels, due to political and economic interests of regional and external players.

One of the most important problems of modern energy policy the EU is providing alternative ways of energy supply. Caspian region with its proven reserves of energy resources is the most promising region for the successful implementation of diversification policy in Europe.

In the conditions of considerable energy dependence on Russian energy sources the EU is seeking to establish an independent access to significant reserves of energy resources in Central Asia. According to estimates of the EU, the Caspian region can provide 15% of the EU's gas demand until 2020. Direct access to the Central Asia gas reserves, which should provide a diversification of energy supply, has become one of the most important issues of European energy policy.

Despite on the developing of the Caspian energy resources transporting infrastructure, the functioning of oil and gas pipelines and

prospects of realization new energy projects in the Caspian region are conjugate with the competition between the Caspian countries and politicization of energy cooperation between them.

Therefore, an important condition for strengthening the Caspian region role in supply of gas resources to the European and world market is to find and implement effective projects of diversity energy supplies.

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## The Evolution Of Constanta Port’ Activities During The Current Crisis Period

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### Abstract

*The global financial crisis affected Romania in 2008 and one of the negative effect was the drastic reduce in volume of the international trade. The exports and the imports of goods were sea-born and river-borne from/in Romania mainly through Constanta Port (which is also a multimodal transport center for any type of cargo and a trade gateway for the Central/Eastern Europe and for the Black Sea Countries) and the financial crisis affected negatively the activity of Constanta Port.*

*Since 2010 has been started a gradual recovery of European economy with differences between developments pace across European countries reflected into a betterment of the performance of Constanta Port.*

*In spite of many political and economic changes that have taken place in Central and Eastern Europe area and have influenced its evolvement the traditional transport routes used by the Port of Constanta have remained unchanged, due to the competitive advantages of the port.*

**Key words:** Financial Crisis, international trade, export, import, transport

**J.E.L. classification:** F10, F18

### 1. Introduction

The Port of Constanta is a multimodal transport center for any type of cargo and an important trade gateway for the Central/Eastern Europe and for the Black Sea Countries (served the flows of goods that arrive or depart from/to the Central and Eastern Europe, including: Austria, Czech Republic, Slovakia, Hungary, Serbia, Bulgaria, Moldova and Ukraine.). The

integration within the national and European transport networks makes the port of Constanta the perfect choice for the cargoes dedicated to the landlocked countries located at the heart of Europe.

The Port of Constanta is located at the crossroads of the trade routes linking the markets of the landlocked countries from Central and Eastern Europe with the Transcaucasia, Central Asia and the Far East. It is the main Romanian port on the Black Sea, playing a highly important role as the transit node for the landlocked countries in the Central and South-East Europe, due to its features:

- is a hub for the container traffic in the Black Sea;
- has good connections with all means of transport: railway, road, river, airway and pipelines;
- has customs facilitations for commercial operations;
- offers modern facilities for passenger vessels;
- has land availability for future expansion.

The port is 85nM from the Danube’s mouth by the sea and is also linked to it by the Black Sea-Danube Canal, being a transshipment point for the cargo sent from or bound to the landlocked countries in Central and Eastern Europe. The Port of Constanta has a dedicated barge terminal in the Southern part, close to the connection with the Danube. Due to low costs and important cargo volumes that can be carried, the Danube is one of the most advantageous modes of transport, an efficient alternative to the European rail and road congested transport.

At the same time Constanta Port enjoys a special position on several Pan-European Corridors:

- Pan-European Corridor no. VII - the Danube - the best connection for the

- European inland waterway navigation;
- Pan-European Corridor no. IV (road and rail) - connecting Western and Southern Europe - crossing Bucharest and linking Constanta via road and rail;
- Pan-European Corridor no. IX - connecting Northern and Southern Europe - crossing Bucharest and linking Constanta via railway;
- TRACECA - linking Europe to Caucasus and Central Asia and attempting to revive the historical “Silk Route”, with Constanta as the entrance point to Europe.

The routes linking the port to the Central Europe are part of the EU's priority investment project in the Trans European Transport Network (TEN-T), ensuring the future development of its market position.

The port of Constanta has a significant road transport infrastructure in place, Constanta-Bucharest highway, together with the bypass linking the port with the highway, ensures easier and better accessibility to the national/European road network.

The port offers direct access from every terminal to the national and European railway network, through its own 300 km long railway system. Improvement works on the railway line between Constanta and Bucharest will ensure competitive transit times, providing easier access to the Central European markets.

The Port of Constanta is connected by pipelines to the major Romanian refineries and to the European pipeline network. The port offers proper conditions for serving the energy markets, providing energy supplies to the Central and Eastern European countries [1].

The article is organized as follows: section 2 presents an overview of activities carried on by Constanta Port between 2008 and 2014 and section 3 shows the evolution of the revenues and investments of Constanta Port based on the main activities of Constanta Port.

## **2. The main activities carried on by Constanta Port in period 2008 to 2014 and the economic factors that impacted the activity**

Many countries experienced recession in 2008 and Romania went into recession in the

third quarter of 2008. This crisis affected the activities unfolded in Constanta Port in 2009 when the volume of traffic carried on decreased with 32,25% (with 20 million tons) comparative with the volume of traffic registered in 2008.

Regarding the structure of traffic realized in Constanta Port, only the volume of exports increased slowly with 7,2% the rest of traffic elements decreased with more than 39% (imports decreased with 39,13%, the transit decreased with 47,37% and the cabotage reduced the value with 50%). At the same time the volume of traffic registered by type of ship decreased with 32%, in case of maritime traffic, and with 33%, in case of river traffic.

Since 2010, when had started the recovery of European economy with positive implication on the Romanian economy, the volume of traffic registered in Constanta Port increased from a year to year in period 2010 – 2014, except the year 2011 (only the raising of exports registered a positive path between 2010 and 2014). (see Table 1., Table 2 and Figure 1)

Through the macroeconomics' analysis carried out by National Bank of Romania and presented in Financial Stability Report/ 2014 result that:

“In 2013, Romania's economy posted one of the fastest growth rates in the EU, i.e. 3.5 percent, above that reported in 2012 (+0.7 percent). The positive dynamics of economic activity were mainly bolstered by industry (which benefitted from auspicious conditions in terms of external demand) and agricultural production (due to favourable weather conditions). The projections for 2014 point to moderate GDP dynamics, the convergence of income per capita in Romania towards the euro area average being expected to continue at a pace similar to the average of the countries in the region.” [2]

Between December 2008 and December 2014 the balance-of-payments current account posted deficits, those deficits were between EUR 5.520 Million, in December 2007 and EUR 268 million in December 2014.

This diminishing of the deficit of account current is due, in principal, to the climb-down of the trade deficit (this deficit was of EUR 4.221 million in December 2008, then it became EUR 2.065 million in December



2009 and finally in December 2010 it was of EUR 1.623 million EUR 1.196 million in December 2014).[3]

All the factors above influenced positively the activity carried on by Constanta Port, respectively the exports and imports through the potage and waterborne transport realized.

*Table 1. The volume of traffic made between 2008 and 2014 in Constanta Port*  
-mil tons-

Year	2008	2009	2010	2011	2012	2013	2014
<b>Total, of which:</b>	<b>62</b>	<b>42</b>	<b>48</b>	<b>46</b>	<b>51</b>	<b>55</b>	<b>56</b>
Exports	14	15	16	17	17	21	22
Imports	23	14	15	15	15	14	16
Transit	19	10	12	10	15	16	13
Cabotage	6	3	5	4	4	4	5

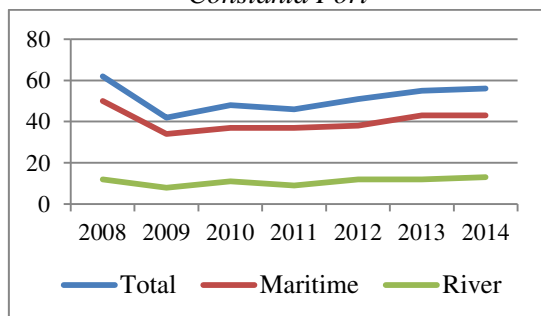
Source:<http://www.portofconstantza.com/apmc/portal/static.do>

*Table 2. The volume of traffic by type of ship made between 2008 and 2014 in Constanta Port*  
-mil tons-

Year	2008	2009	2010	2011	2012	2013	2014
<b>Total, of which:</b>	<b>62</b>	<b>42</b>	<b>48</b>	<b>46</b>	<b>51</b>	<b>55</b>	<b>56</b>
Maritime	50	34	37	37	38	43	43
River	12	8	11	9	12	12	13

Source:<http://www.portofconstantza.com/apmc/portal/static.do>

*Figure 1 The evolution of the volume of traffic made between 2008 and 2014 in Constanta Port*



Source:<http://www.portofconstantza.com/apmc/portal/static.do>

Another factor that influenced the activity of Constanta Port was the Ukrainian Crisis.

The intensification of political and military tensions associated with the conflict in Ukraine caused financial market turmoil all over the world. The crisis in Ukraine broke out at a time when European economies were recovering from the losses incurred during the recent recession. Hence,

early-2014 episode sparked debates over the economic and financial impact of the conflict in Ukraine. The hike in energy prices entails corrections across the economy, whereas the portfolio rebalancing decisions may bring about contagion on financial markets in Central and Eastern Europe. [2]

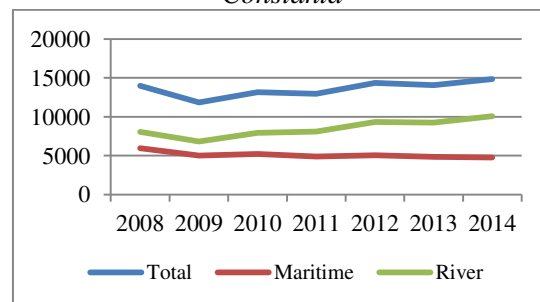
Due to the Ukrainian Crisis, a lot of transporters, included the passengers vessels, changed their maritime and river routes in 2014 using more and more the Constanta Port services in detriment of the Uckaina' ports (especially the maritime ports such as: Odessa, Illicevsk, Belgorod-Dnistrovski, Iujni, Kerci, Sevastopol, Feodosia, Ialta and Evpatoria and Danube ports such as: Reni, Ismail și Ust-Dunaiski). The increased traffic of vessels is presented below in Table 3., Table 4., Table 5 and Figure 2.

*Table 3. The evolution of ship calls by type of ship in period 2008 -2014 through Port of Constanta*  
-number-

Year	2008	2009	2010	2011	2012	2013	2014
Maritime calls	5.950	5.023	5.202	4.872	5.057	4.833	4.771
River calls	8.033	6.808	7.943	8.096	9.310	9.233	10.053
<b>Total</b>	<b>13.983</b>	<b>11.831</b>	<b>13.145</b>	<b>12.941</b>	<b>14.367</b>	<b>14.066</b>	<b>14.824</b>

Source:<http://www.portofconstantza.com/apmc/portal/static.do>

*Figure 2 The evolution of ship calls by type of ship in period 2008 -2014 through Port of Constanta*



Source:<http://www.portofconstantza.com/apmc/portal/static.do>

*Table 4. The evolution of maritime ship calls by type of ship in period 2008 -2014 through Port of Constanta*  
-number-

Year	2008	2009	2010	2011	2012	2013	2014
Cargo	2.881	2.748	3.145	2.879	2.692	2.525	2.146
Passenger	81	51	58	44	52	69	95

Portcontainer	1.201	694	523	577	651	579	578
Tank	957	724	647	632	673	636	719
Bulk Carrier	415	386	419	401	439	533	558
Others	415	420	411	339	550	492	675
<b>Total</b>	<b>5.950</b>	<b>5.023</b>	<b>5.202</b>	<b>4.872</b>	<b>5.057</b>	<b>4.833</b>	<b>4.771</b>

Source:<http://www.portofconstantza.com/apmc/portal/static.do>

Table 5. The passenger traffic unfolded in Constanta Port during 2008 and 2014

	-number-						
Year	2008	2009	2010	2011	2012	2013	2014
Passengers	30948	15.891	21.286	23.878	34010	54.226	64.861
Passenger vessels	81	51	58	44	52	69	95

Source:<http://www.portofconstantza.com/apmc/portal/static.do>

### 3. The revenues and investments achieved by Port of Constanta between 2008 and 2014

The incomes realized by Constanta Port had followed the same path with the volume of traffic registered between 2008 and 2014, respectively, in 2009 recorded an important decrease then started with 2010 till 2014, except the year 2011, the trend was positive from a year to another. (see Table 6 and Figure 3)

Table 6. The evolution of the revenue achieved by Constanta Port during 2008 and 2014

	-eur million-						
Year	2008	2009	2010	2011	2012	2013	2014
<b>Total income, of which:</b>	<b>69</b>	<b>56</b>	<b>65</b>	<b>64</b>	<b>66</b>	<b>68</b>	<b>69</b>
Ship services	24	20	21	21	25	32	29
Revenues from renting	16	19	17	17	17	12	19
Power supply	9	7	7	7	7	8	7
Water supply	2	2	1	1	2	1	2
Financial revenues	2	1	4	4	3	4	2
Others	16	7	15	14	12	11	10

Source:<http://www.portofconstantza.com/apmc/portal/static.do>

Figure 3 The evolution of the revenue achieved by Constanta Port during 2008 and 2014



Source:<http://www.portofconstantza.com/apmc/portal/static.do>

The investments realized by Constanta Port for infrastructure, superstructure and equipment registered an important upswing started from year 2010, after a decreasing level of investments from 2009 (see Table 7 and Figure 4). This positively evolution of investments that had been recorded since 2010 was possible due to the access to funds from European Union.

The sources of investments were as follows:

- own sources, which maintained their level between 2008 and 2011, then registered an increasing of EUR 1 million in 2012 followed by a decrement in 2013 and 2014 (due to the access of European funds);
- budgetary allocations, which decreased their level in 2009, then then the volume recorded increasing of the level in 2013 and
- funding from European Fund for Regional Development.

The Port of Constanta has benefited from European Fund for Regional Development by accessing the European Union Strategy for the Danube Region since 2010, the biggest amount accessed was EUR 69 million in 2013, followed by the sum assigned in 2014 EUR 58 million. (see Table 7)

The initiative “Danube Strategy” was launched in 2008, at the joint proposal of Romania and Austria, supported by all the Danube riparian countries.

The “Danube Strategy” approaches the Danube region in an integrated manner, focusing on transport, economic, social and cultural aspects.

The main objectives are:

- to improve navigability of the Danube, in particular for cargo;
- to protect environment and fight pollution;
- to promote economic development as well as cultural and touristic activities;
- to improve disaster management.

Target area: the Strategy targets member states such as Germany, Austria, Slovakia, Czech Republic, Serbia, Hungary, Romania and Bulgaria.

The three main priorities at the core of the Danube Strategy are:

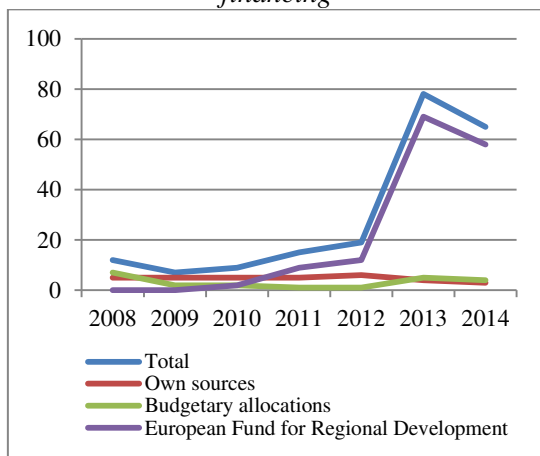
- 1) transport;
- 2) environment;
- 3) economic development. [1]

Table 7. The total value of the investments made in period 2008- 2014 by Constanta Port' authorities by sources of financing

Year	2008	2009	2010	2011	2012	2013	2014
<b>Total investments, of which:</b>	<b>12</b>	<b>7</b>	<b>9</b>	<b>15</b>	<b>19</b>	<b>78</b>	<b>65</b>
Own sources	5	5	5	5	6	4	3
Budgetary allocations	7	2	2	1	1	5	4
European Fund for Regional Development	0	0	2	9	12	69	58

Source:<http://www.portofconstantza.com/apmc/portal/static.do>

Figure 4 The evolution of the value of the investments made in period 2008- 2014 by Constanta Port' authorities by sources of financing



Source:<http://www.portofconstantza.com/apmc/portal/static.do>

#### 4. Conclusions

The economic activity of Constanta Port registered an ascendant trend (after the financial crisis which had affected Romania in the third quarter of 2008) since 2010, except the year 2011, due to in primary to the next factors:

- the recovery of Romanian economy and the upturn of international trade of Romania, taking into account the fact that an important part of this international trade is realized through Constanta Port;
- the investments made by Constanta Port administration for: infrastructure, superstructure and equipment beginning with the year 2010 due to the access to funds from European Fund for Regional Development (from the European Union Strategy for the Danube Region) which had improved the navigability of the Danube and Black Sea, in particular for cargo. The Constanta Port is playing a more significant role as a hub for the transit of various types of cargo coming from the landlocked countries of Central and South Eastern Europe;
- the change in routes for water carriage due to the Ukrainian Crisis in this sense, a lot of maritime and river transporters, included the passengers vessels, changed their maritime and river routes in 2014 using more and more the Constanta Port services in detriment of the Ukraine ports.

Taking into account the positive economic outlook for Romanian economy made for next year and the investments made by administration of Constanta Port it can be foreseen an increasing of all activities displayed by Constanta Port in the near future.

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# The Regional Economic Convergence in Romania: an Analysis Based on the Entropy Approach

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## Abstract

*The paper intends to document the process of economic convergence of Romanian regions based on the entropy approach. Entropy indexes were calculated based on regional GDP per capita and studied their components (within and between regions). The main findings show a divergence process of the economic performance of regions, confirmed by other statistical measures of regional disparities (standard deviation and coefficient of variation).*

**Key words:** regional convergence, regional disparities, entropy

**J.E.L. classification:** R11, R12, F02

## 1. Introduction

The convergence process in a group of spatial units (regions, countries) can be examined with a correspondent from physics, namely, the entropy.

The entropy is a measure of information uncertainty, a higher value of it implying a higher degree of uncertainty. In the convergence analysis this increase in uncertainty translates into an emphasis of divergence process [18].

The process of economic convergence or divergence can be analysed using this type of measurement by comparing the results with other statistical measure of concentration or inequalities distribution. The regional economic convergence means the decrease of the development gap between less developed compared to developed regions.

Issues related to economic convergence and regional disparities are placed in the attention of economists and politicians due to their crucial importance for achieving the goals of cohesion policy at European level. Within its integration process, Romania is

interested to reduce the gap between its regional development compared to the European average, on the one side and inside its national territories, between regions, on the other side.

Therefore, the paper intends to analyse the development gaps between the Romanian regions by using the entropy approach. The paper is organised as follows. After the introduction, a short literature review summarizes the most relevant studies is followed by a section dedicated to methodology and data. Main findings are exposed in the fourth section followed by conclusions and references.

## 2. A short literature review on entropy and economic convergence

The concept of entropy was introduced by R. Clausius, who tried to describe mathematically the course of thermal process. L. Boltzmann developed the concept by describing the course of all natural processes. According to the second law of thermodynamics, the disorder degree of a system is continually increasing, meaning increasing its chaos. In information theory, entropy is a measure of redundancy in data and the information transfer is accompanied by the increase of entropy [11].

The term of entropy is used to definition the level of order/disorder of an economic system. The convergence measurement was related to the way of getting a numerical measure of the indetermination degree (entropy). The entropy measure is theoretically founded in information theory and measures the ex-ante expected information content of a distribution. The value of the entropy varies inversely to the degree of concentration.

The concept of economic convergence is well studied in the economic literature. Several authors [3],[4],[6],[8],[10][11],[13],[15],[16],[17],[18],[19] studied the common trend of some indicators or indices related to economic and social development or activities and reflecting disparity, discrepancy, inequality, imbalance, polarisation, agglomeration, concentration or dispersion on these activities and using adequate mathematical techniques.

[12] proposed a new concept of convergence that takes into account the entropy measure described by [9] for assessing economic convergence in China.

Discussions regarding regional disparities are related to those of economic convergence, the key to a balanced territorial development, as an objective of the Cohesion Policy of the European Union. Therefore, the interest of European economists and politicians from Member States for this topic is increasing.

### 3. Methodology and data

In economics and statistics, the entropy indexes are usually used to inequality measurement.

In the present paper, the entropy indexes will be used to analyse the convergence of regional economic performance in the case of Romania.

The generalised entropy measure (GE) is given by the formula:

$$GE(\alpha) = \frac{1}{\alpha(\alpha-1)} \left[ \frac{1}{n} \sum_{i=1}^n \left( \frac{y_i}{\bar{y}} \right)^\alpha - 1 \right] \quad (1)$$

where:  $y_i$  is the GDP per capita of the unit  $i$  and  $\bar{y}$  is the average of GDP per capita.

The values of GE measures vary between 0 and  $\infty$ , with zero representing an equal distribution and higher value representing higher level of inequality. The parameter  $\alpha$  in the GE represents the weight given to distances between incomes at different parts of income distribution, and can take any real value. For lower values of  $\alpha$ , GE is more sensitive to changes in the lower tail of the distribution and for higher values, GE is more sensitive to changes that affect upper tail. The commonest values of  $\alpha$  used are 0, 1 and 2.

The entropy indexes we use imply that a number of counties ( $j$ ) varies between 1 and 8 and the number of counties  $i$  within a region varies between 1 and 7.

We use these indexes [5] due to their special features of being additively decomposable both by population subgroup and by factors component.

Thus, the general entropy index can be decomposed into a "within" variance ( $E_c$ ) and a "between" variance ( $E_r$ ):

$$E = \sum_{i=1}^m S_i E_{ci} + T_r = E_c + E_r \quad (2)$$

This decomposition has only been applied for the Theil Index. The Theil index is a particular case of the Generalised Entropy Index with coefficient 1. One interest of the Theil index compared to the preceding measures is that it corresponds to the sum of average inequality within subgroups and inequality among those subgroups, a property which is referred to as “decomposability”. Formally, if the population is divided into  $m$  subgroups (e.g. Member States), if  $T_{ci}$  is the Theil index for subgroup  $i$  (e.g. reflecting the disparities among regions of Member State  $i$ ), if  $S_i$  is the share of group  $i$  in global income (e.g. the share of Member State  $i$  in EU GDP) and  $T_r$  the index computed on the basis of the  $m$  groups (e.g. reflecting the disparities among Member State), then the Theil index is [14]:

$$T = \sum_{i=1}^m S_i T_{ci} + T_r = T_c + T_r \quad (3)$$

In the case of Romanian regions,  $T_{ci}$  is the Theil index for subgroup  $i$ , reflecting the disparities among counties of the region  $i$ ,  $S_i$  is the share of region  $i$  in the national income (the share of region  $i$  in Romanian GDP) and  $T_r$  is the index computed on the basis of the  $m=8$  Romanian regions.

We will use the following formula [7]:

$$T = \frac{1}{n} \sum_{i=1}^n \frac{y_i}{\bar{y}} \log \frac{y_i}{\bar{y}} \quad (4)$$

where  $y_i$  is the GDP per capita for the region  $i$  and  $\bar{y}$  is the national average of GDP per capita and  $n$  is number of regions.

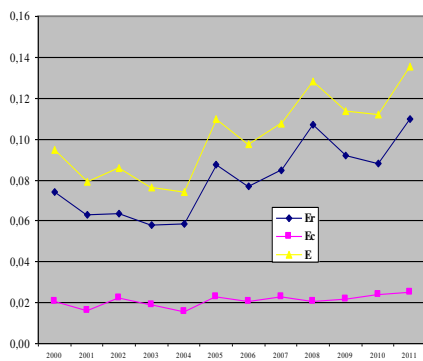
The same rationale is applied for a region when we calculate Tci.

For analysing the regional economic performances, the regional GDP was used (per capita and total). Data were collected from EUROSTAT and NIS database for the period of 2000-2011.

#### 4. Main findings

##### 4.1. The evolution of regional convergence based on entropy index

Figure 1 Entropy of regional GDP per capita in Romania and its components



Source: author's computation based on Eurostat data

We can notice from the Figure 1 that the total entropy index (expressed by the Theil index of regional GDP per capita) increased from a level of 0.09 in 2000 to 0.14 in 2011, highlighting a divergence process of economic performance of Romanian regions.

The decomposition of the the entropy indexes in "within" regions and "between" regions shows that the source of the disparities increase consists on the differences (inequalities) between regions. The entropy "between" regions contributes to the general entropy in a proportion of 73,78% to 83.75% while the entropy "within" regions brings a contribution of only 16.25% to 26.22% to the general entropy (see Table 1).

Table 1 Shares of inter- and intra-regional inequalities, 2000-2011(part 1)

Share of Entropy Index explained by:	2000	2001	2002	2003	2004	2005
Inter-regions inequalities	78,03 %	79,6%	73,78 %	75,57 %	79,03 %	79,37 %
Intra-regions inequalities	21,97 %	20,40 %	26,22 %	24,43 %	20,97 %	20,63 %

Source: author's computation based on Eurostat data

Table 1 Shares of inter- and intra-regional inequalities, 2000-2011(part 2)

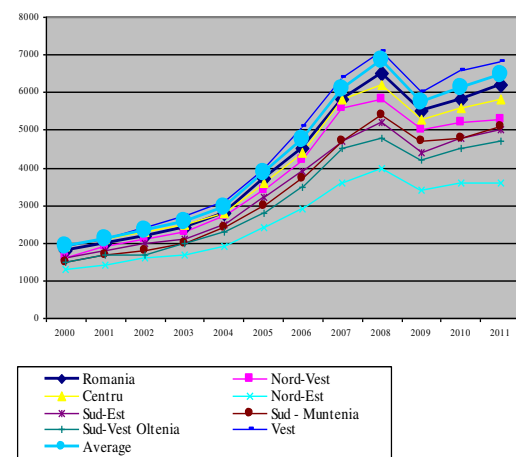
Share of Entropy Index explained by:	2006	2007	2008	2009	2010	2011
Inter-regions inequalities	78,92 %	78,92 %	83,75 %	81,07 %	78,61 %	81,31 %
Intra-regions inequalities	21,08	21,08	16,25 %	18,93 %	21,39 %	18,69 %

Source: author's computation based on Eurostat data

The inter-region component of the index clearly increases over time. In 2000, 78.03% of territorial disparities can be explained by disparities among regions counties. By 2011, territorial disparities among regions accounted for 81.31% of disparities among regions, suggesting a slight decrease of intra-regions component (among counties).

But, in detail, (Figure 2) we notice that not all regions are converging in same way to the national average. The region of Nord-Est is taking distance from the national level and national average of GDP per capita; the economic performance of this region is marked by a high share of unemployed people, active population who emigrated for working abroad and a major reduction of industrial activities. According to EUROSTAT data, the GDP per capita in this region is the lowest of Romania (3600 Eur per inhabitant in 2011). The region of București-Ilfov is excluded in this figure due to its special dynamics, different from other regions.

Figure 2 Trends in regional GDP per capita and the national average

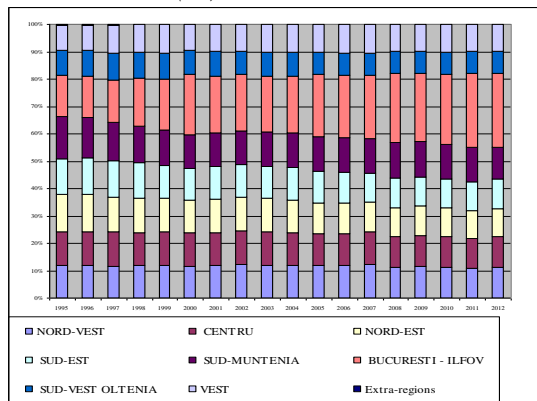


Source: author's computation based on EUROSTAT Data

The regions of Nord-Vest, Sud-Muntenia and Centru are slightly distanced from the national average in the last years(2010-2011) and the regions of Sud-Est and Sud-Vest are following the national trend, while the Vest region is the closest to the national trend in 2011.

#### 4.2. Trends in the contribution of regions to the national GDP

Figure 3 The contribution of regions to the national GDP (%)



Source: author's computation based on NIS Data (see Annex 1)

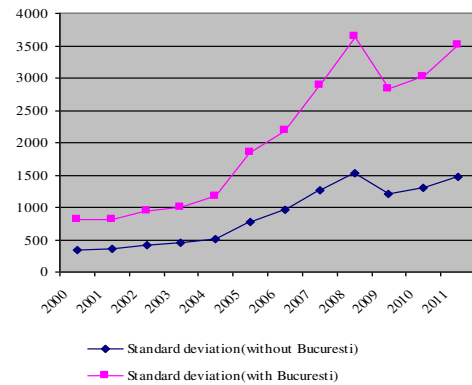
As we report in the Figure 1, the contribution of regions to the national output (GDP in millions lei) differs over the examined period. From far, the Bucuresti-Ilfov region is the most dynamic; its share on the national GDP evolves from 15% in 1995 to 27% in 2012. The rest of the contribution is shared by the other 7 regions, with a share to the national GDP varying from 8% to 12%. Most of regions are stable in time in their contribution to the national GDP by keeping a certain level of economic performance. For example, the Nord-Vest region kept the level of its contribution to 12% in the most of the years. In a similar situation is the Vest Region with a level of 9% to 10%. The increase of the Bucuresti region is compensated by a slight decrease of Centru, Sud-Est, Sud-Muntenia and Sud-Vest Oltenia regions. The region of Nord-Est registered the major decrease, from 14% to 10%.

#### 4.3. Regional disparities expressed by variance indicators

The trend of more marked regional disparities is confirmed by the values of variances indicators, reported in the Figure 4a and b.

We calculated the standard deviation and the coefficient of variation for the period of 2000-2011, based on regional GDP per capita.

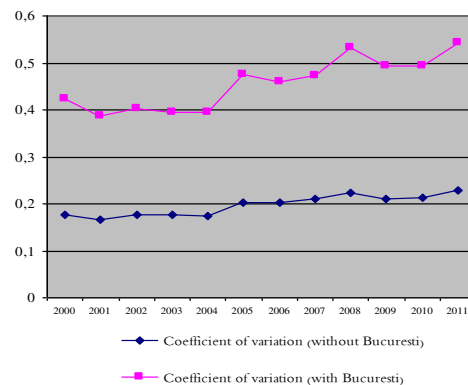
Figure 4a Standard deviation of regional GDP per capita, 2000-2011



Source: author's computation based on EUROSTAT Data

As we can notice, the value of standard deviation of the regional GDP per capita is growing over the years, from 337,47 in 2000 to 1475,82 Euro/inhabitant in 2011, meaning an increase of 4,35 times. The evolution is similar when we include the region of București, the increase is of 4,33 times, from a level of 811,53 in 2000 to 3515,39 Euro/inhabitant in 2011. The maximum of the standard deviation was registered in 2008.

Figure 4b Coefficient of variation of regional GDP per capita in the Romanian regions, 2000-2011



Source: author's computation based on EUROSTAT Data



The displayed data show an increase of 11.86 percentage points of the coefficient of variation in the case of including the region of București. If not, the increase is of 5.15 percentage points. A reason of this finding is that București region is very far and above of the national and mathematical average of GDP per capita.

The maximum of all variance indicators was reached in 2008 followed by a sharp fall in 2009 and rapid recovery period after that and their values are higher when the București region is included in the analysis.

## 5. Conclusions and policy implications

The paper intended to document the process of economic convergence of Romanian regions by using the entropy indexes. The findings using the Theil Index as particular case of generalised entropy index show a divergence process experienced by the Romania regions over the years of 2000-2011. This conclusion was verified by using other statistical measurements of regional disparities (standard deviation and coefficient of variation). The economic divergence is higher when the region of Bucharest is included in the analysis.

The findings of the present study are in line with other studies on regional disparities in Romania [1], [2] emphasizing an increase of regional disparities and a risk in attaining the cohesion objective of the balance regional development.

The disparities between regions have grown more rapidly last years (after 2009) fact that suggests for politicians to take into consideration this reality in drawing appropriate policy measures aiming to reduce the regional imbalances.

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**Annex 1**  
**Weights of regional GDP in the national GDP**  
**(part 1)**

Regions (NUTS 2)	1995	1996	1997	1998	1999	2000	2001	2002	2003
NORD-VEST	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12
CENTRU	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12
NORD-EST	0.14	0.14	0.13	0.13	0.12	0.12	0.12	0.12	0.12
SUD-EST	0.13	0.13	0.13	0.13	0.12	0.12	0.12	0.12	0.12
SUD-MUNTENIA	0.15	0.15	0.14	0.13	0.13	0.12	0.12	0.12	0.12
BUCURESTI-ILFOV	0.15	0.15	0.15	0.18	0.19	0.22	0.21	0.21	0.20
SUD-VEST OLTENIA	0.09	0.09	0.10	0.09	0.09	0.09	0.09	0.08	0.09
VEST	0.09	0.09	0.10	0.10	0.10	0.09	0.10	0.10	0.10
Extra-regions	0.002	0.002	0.002	0.002	0.002	0.002	0.002	0.002	0.001

Source: author's computation based on NIS Data

**Weights of regional GDP in the national GDP**  
**(part 2)**

Source: author's computation based on NIS Data

Regions (NUTS 2)	2004	2005	2006	2007	2008	2009	2010	2011	2012
NORD-VEST	0.12	0.12	0.12	0.12	0.11	0.12	0.11	0.11	0.11
CENTRU	0.12	0.11	0.12	0.12	0.11	0.11	0.11	0.11	0.11
NORD-EST	0.12	0.12	0.11	0.11	0.11	0.11	0.11	0.10	0.10
SUD-EST	0.12	0.11	0.11	0.11	0.11	0.10	0.11	0.11	0.11
SUD-MUNTENIA	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.12	0.12
BUCURESTI-ILFOV	0.20	0.23	0.23	0.23	0.25	0.25	0.26	0.27	0.27
SUD-VEST OLTENIA	0.09	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08
VEST	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Extra-regions	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001

# Main Directions of Strategic Development of the Ukrainian Sector of Cruise Tourism

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## Abstract

*The cruise industry is the fastest growing segment of the travel industry. The Black Sea region is one of the most perspective in terms of business development .*

*The main features of the Black Sea region are considered in this paper. Negative factors in the development of sea cruise tourism in Ukraine are presented. Some ways of improving the efficiency of the development of cruise tourism in the region and necessary strategies are described in the paper.*

**Key words:** cruise tourism, cruise vessels, strategies, development, port.

**J.E.L. classification:** 0180

## 1. Introduction

The cruise industry has witnessed an uninterrupted growth over the last thirty years. While the global financial crisis of 2008–2009 had a major impact over maritime shipping, cruise shipping and cruise ports continued to enjoy a steadily rising number of passengers.

This growth continues with innovative, feature-rich ships, the use of an increasing number of ports of call and turnaround ports, and convenient departures from nearby embarkation cities as fundamental principles of the industry. The industry has become a highly efficient business with the Caribbean and the Mediterranean Sea the most popular destinations. Passenger growth also occurred in secondary markets such as northern Europe, Alaska and South America. Cruises are becoming an ever more global business with large-scale developments also taking place in Asia and Africa.

Still, there has been significant shifts in the organization and strategies of cruise lines, their customers, the size of the ships, the variety of onboard services, the planning and development of cruise ports, the organization of land-based operations and the perspectives of the various destinations [1].

## 2. The purpose of the research

The aim of this paper is to characterize the state of the cruise industry in Ukraine, and to consider possible strategies of improving the situation and attraction of cruise lines and cruise tourists to the Black-Sea region.

## 3. Main material

Modern characteristics of global cruise market are following:

- Increasing number of passengers: 16,5 million passengers in 2006; 18,4 million in 2010 and 21,3 million in 2013;

- Nationality of passengers: 63% North Americans, 28% Europeans, 9% rest of the world;

- More and more look for a boarding port close to home;

- Increasing demand for shorter duration cruises (3 to 4 days);

- Increasing demand for thematic, multi-generational and family cruises;

- 90 % of the cruises are sold through specialized cruise travel agencies [7].

Cruise lines building a destination portfolio, examine:

- Local availability of adequate infrastructure:

- Low tariffs

- A plenty of on-shore activities.

But additional factors assessed at a regional level are:

- Favorable climatic conditions;
- Security terms;
- The combination of different types of attractions.

Many economies and ports in all the world look at the cruise industry as a potential source of development and economic growth.

Modern cruise technologies allow to combine different types of recreation. However, there are four standard services: a comfortable journey, guided tour, comfortable beach rest and level of accommodation at a standard of a good hotel. The cruise business is based on the opposition of the comfort of staying on board and the maximum density of impressions from visiting the coastal tourist infrastructure. On this basis, competitive preferences are generated in the cruise business, on the basis of which, shipbuilding industry and the formation of a network service market areas are getting further development [2].

The Black Sea region is one of the most perspective in terms of business development, not only because of its unique cultural and historical heritage, but also from an economic point of view. Short distances between ports allow to save on fuel for ships and generally have positive impact on the profitability of the shipping companies.

The actuality of development of cruise tourism is enhanced by the fact that Ukraine has unique competitive advantages (significant length of maritime boundaries, favorable climate, rich historical and cultural heritage, etc.) that contribute to the powerful potential in this type of business; and on condition of developed infrastructure has the potential to take a leading position in the global cruise market [3].

The main feature of the modern Ukrainian market of maritime cruise tourism is an almost complete lack of demand of Ukrainian tourists on domestic Black Sea cruises. The lack of development program of transit-transport component of sea cruise business should be added to this. After unsuccessful attempts to revive the domestic cruise fleet, Ukrainian tourists mostly redirected to European cruises, that world cruise companies actively offer [4].

Unfortunately, in the absence of its own fleet, passenger ports of the Black Sea are considered by international cruise operators as only for transit voyages, based on Mediterranean destinations. Appropriate cruise groups are formed by travel agencies of the CIS countries, that have necessary experience.

One of the main suppliers of cruise tourists, 99.9% company-operators - foreign, mainly from the Caribbean and Western Europe, which are shipowners or operators of vessels, that are calling at the ports of the Black Sea.

The development of cruise shipping in the Black Sea is constrained by the fact, that only port of Odessa, one of the Black Sea ports of Ukraine, can take passenger vessels without length limitation. Today Odessa port can accept vessels up to 320 meters. If until 2005, virtually all ships entering the Black Sea were up to 200 meters, but today 30% of cruise vessels have length over 200 meters, 10% - more than 250 meters.

Also, the reason, that constrains the development of cruise shipping through the port of Odessa, which could become the base cruise port of the Black Sea, is the lack of airport of international level.

However, it should be noted that today large-scale renovation project of Odessa International Airport is carried out, which includes construction of a new terminal complex and a new runway. The airport will be able to serve 3 million passengers and departure halls will provide a comfortable accommodation for passengers of 12 flights simultaneously after the completion of building of the new terminal [5].

Sea cruise tourism in Ukraine is associated only with foreign sea comfortable liners, which navigating between the ports of Ukraine and ports of other countries. However, relatively small, but fairly comfortable, modern high-speed cruise ships and yachts for walking and recreation, that allows to make short-term travel, have sufficient demand in the organization of sea voyages along with cruise ships and multi-purpose car-passenger ferries.

Negative factors in the development of sea cruise tourism in Ukraine are:

- The lack of a national strategy of the development of tourist infrastructure in seaports, that accept cruise ships, its

inconsistency with international standards on cruise components;

- Political instability;
- The lack of legislative support for an enabling conditions of investment in the development of appropriate tourism infrastructure in the Black Sea cruise regions;
- The low level of budget financing, the lack of state support for the development of the cruise industry;
- The factor of seasonality of the cruise business,
- Low level of advertising in the Western media, a large number of false negative publicity that undermines the tourist image of the country.
- Lack of qualified professionals, that capable in the shortest possible time to ensure the reception of cruise tourists.
- Lack of sufficient comfortable bus fleet for tourist transportation;
- The lack of tourist pictographs and international marking, audio guides in museums, parking spaces on the tourist routes, near the main monuments of architecture and history. The interests of the elderly tourists, wheelchair disables make up a large percentage of cruise ships travelers by sea, according to research data, are not taking into account.

- The complexity and duration of the procedure of passport and customs control. Extremely excessive port charges;

- Financing of cruise tourism is actually made out of the funds, that allocated by ports.

Improving the efficiency of the development of cruise tourism is possible by the implementation of the following provisions:

1. Improvement of legislation in the field of cruise shipping in according to international standards and rules of law, that involves the development of legislative and normative-legal acts and instruments of state influence, directed at stimulating of the development of the cruise industry, which include: the removal of the visa regime for cruise passengers; simplification of customs procedures and border registration, that will favour for increasing the time of sightseeing; the application of flexible cumulative discount system of port dues for cruise ships, which taking into account the number of ship calls at Ukrainian ports; creation of favorable

conditions for attracting foreign and private investment in the cruise sector;

2. Creation of developed infrastructure (port, transport, tourism) by joining forces with the coastal resort complexes and transport organizations. The obligatory conditions are: construction of new terminals at airports and marine terminals, or expansion of existing ones; new construction or reconstruction of old roads, which facilitate access to attractions; the establishment of ports of call of foreign ships appropriate urban infrastructure in the ports of call of foreign cruise vessels; a sufficient number of tour buses and taxis; providing information signs for tourists.

3. The development of a system of statistical information about functioning and development of the cruise market, that provide an opportunity for the performance of analysis of cruise tourism complex in whole and of individual companies in particular. This point involves the organization of statistical observation in every port [6].

Strategy of development of cruise shipping in the Black Sea region should be directed to promotion of foreign companies cruises, that belong to the category of mass market, low cost. This will increase the incomes of seaports and companies, that providing services to tourists on the land. At the same time one of the conditions of increasing demand on cruises from the population of post-Soviet countries is to control the price of travel services (including cruise, airfare, hotel reservations, etc.), that provided by domestic tour operators, which often significantly overestimate the price of travel packages, including cruises [5].

The fact that interest to the Black Sea region exist, and every year this interest had been increased ,the number of ship-calls to the port of Odessa during the years 2009-2013 indicates (Table 1).

*Table 1 Calls at the port of Odessa*

Year	Number of calls
2009	58
2010	72
2011	73
2012	91
2013	106
2014	32

2015	30
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blacksea-cruises.com

In 2014, amidst growing security concerns and fighting in eastern Ukraine, cruise lines changed their 2015 Black Sea itineraries to bypass the ports of Odessa, Sevastopol and Yalta. They have been replaced with ports of call in Turkey, Romania, Georgia and Bulgaria, with some sailings are spending more time in Greece. Similarly, river cruise operators have suspended Ukraine itineraries.

The military-political situation in Ukraine still have a negative effect on sea cruise tourism, operators confirmed only a third of applications for ship-calls in the port of Odessa in 2015. Initially, there were 91 applications for ship-calls, but at the moment, according to available information from the operators, 30 calls of cruise liners should be. The administration of the port of Odessa thinks that cruise operators can cancel visits to Ukraine in the next year, as cruise lines plan their schedules of their cruises in advance for 2-3 years. Thus, it is impossible to talk about improving the situation, as, for comparison, in 2014, 32 ship-calls took place, however, 159 ship-calls was planned.

The administration of the port of Odessa is working to restore the image of Odessa port and the city as a safe for sea travelers. Representatives of the port are participating in international exhibitions and conferences, publishing tourists reviews of staying in Odessa, holding direct contact with the top management of the leading cruise companies in the world. The port also is active in the Association of cruise ports of the Mediterranean and Black Seas - MedCruise.

#### 4. Conclusions

At the present time, cruise tourism is one of the most popular and fastest-growing segments of the international tourist market, which has significant investment potential, based on the natural features, the ever-increasing demand and, consequently, the economic results.

The dynamic development of the world market of cruise shipping causes interest in this field from both - domestic sea ports with passenger terminals and having the opportunity to take cruise vessels of

considerable size, and the potential cruise operators and travel agencies [8 ;9; 10].

The main conditions of the development of the cruise industry in the maritime complex of Ukraine are:

- implementation of a competitive tariff policy;
- strategy of creation clusters and special zones in sea ports;
- attracting additional passenger traffics from Europe;
- measures to prevent pollution of the environment, compliance of the requirements of the usage and protection of water objects within the territory and harbor area of the sea port;
- ensuring of the environmental safety in accordance with international standards.

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## The Scheme of the Regulation and Financing of Transport Infrastructure Projects of the Regions of Ukraine

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### Abstract

*Foreign experience about the financing of transport infrastructure is analyzed in this article. Also the scheme of regulation and financing of transport infrastructure projects based on experience of UK and other EU countries is presented. The domestic practice relating to the financing of major infrastructure projects is researched, as well as the experience and practice of foreign countries. The positive and negative sides of public-private partnership are grounded. The possible directions of financing of the transport infrastructure towards its development are considered. The advantages of public-private partnership as a stable form of long-term investment are presented in this article. The main state policy directions in the sphere of transport infrastructure development are presented.*

**Keywords:** state-private partnership, a transport infrastructure, a regional infrastructure, regional and a state policy.

**JEL Classification:** R42

### 1. The problem

The transport along with other infrastructure sectors provides the basic conditions of social life, the transport is an important instrument for achieving social, economic and foreign policy targets. The sustainable development provides the unity of economic space, free movement of the goods and services, competition and freedom of economic activity. The whole range of tasks for the development of transport infrastructure could not depend entirely on the companies operating in this sector. Private investors should be involved in this process in addition to state and regional authorities.

Infrastructure investments are seen as the main lever of economic development of the country in a whole and for each region in particular. It is impossible to maintain superior transport infrastructure at the expense of enterprises' funds and state funds. The quality of regional infrastructure does not only testify to its importance for the present, but also gives impetus to future development. So, according to the report released at the World economic forum, insufficient funding of infrastructure is one of the most serious economic risks for all countries, since the welfare and sustainable development of any region depend on the condition of the infrastructure [1].

### 2. The purpose of the research

To set the directions of regulation and financing of transport infrastructure projects based on foreign practice analysis.

### 3. Analysis of recent publications and researches

Many scientists were engaged in studying of theoretical and practical side of infrastructure regulations and financing: Antonova E., Balashov S. Y. Emelianov, Lohtia L., Akovenko A., Rozhkova S., chamber V. Regulation of investment processes at the regional levels requires modern methods of management.

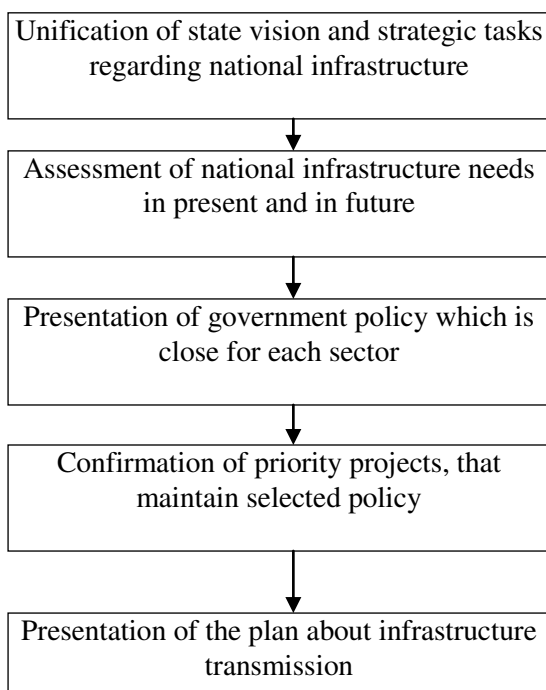
### 4. The main material of the research

We suggest the following scheme for the regulation and financing of transport infrastructure projects, based on the experience of UK and other EU countries, (Fig. 1) [2, 3, 4]:

- At the state and regional levels it is necessary to form long-term approach for infrastructure planning in accordance with

which the government must guarantee funding needed to meet infrastructure needs. The government should use a targeted approach for infrastructure investment and transmission through different sectors. It should not be a single approach for all cases, but it is vital to go with unified context and procedures to be transparent. The use of planning as a mean of expressing needs, as an appointing of priorities, funding, efficiency, value and quality is vital too.

Figure 1. State policy directions regarding regulation of questions about the development of transport infrastructure [2, 3].



- Mixing together the state's vision for infrastructure development and analysis of infrastructure needs in various sectors at present and forecasts for the future that will guarantee effective government approach.

- An analysis of actual condition of the public infrastructure.

- A presentation of government approach about infrastructure development overall and about each sector in particular; the determination of its strategic objectives, essential results, investment priorities, which is a key to achieve pointed goals.

- A reflection of government policy regarding local infrastructure.

- A reflection of government approach regarding priorities and monitoring of key investments transmission which are installed for each sector.

- Define financial periods that the government should pay attention to.

- Establishment of government approach of improving the environment during transmission infrastructure to a public-private partnership.

Unlike with previously existing state approaches this research have been proposed:

- Connect together analysis of the infrastructure needs in various sectors of the economy today and in the future.

- To combine sectors in the government approach for the installation and transferring of the necessary infrastructure for them.

- To formulate some expediency for the best selection of state priority investments, to identify key projects within individual investments and to determine more details regarding the timing, funding and status of each of them.

- To establish new directions in which the government will ensure investments.

Exploring national practices (as well as the experience and practices of foreign countries) regarding the financing of large infrastructure projects, you can come to the conclusion that there is no single, universal, all accepted method of funding. One of the most promising methods includes public-private partnership (PPP).

Globally, the public-private partnership (PPPs) will become an increasing importance as a mechanism of delivery of public services, but at the same time, the scope of its activities is limited by amount of state funds allocated for investment purposes. This situation occurred in countries of the transition economies, but mostly in the so-called rich countries: Germany, France and even the United States increasingly use PPPs for the provision of public services.

PPPs is considered as a stable form of long-term investment with proper execution of the contractual relationship. In this respect, PPPs projects become the great support, in which the state partner assumes the role of guarantor. These types of projects increasingly attract the interest of investors because the risk of these projects are lower than in projects of a strictly private financing.



Other types of financing exist and are implemented actively:

- traditional providing of public services (provision of government services, the contract for the provision of services);
- public-private partnership (transfer of assets, projects "from scratch", concessions, contracts for management and rental);
- privatization (redemption of the company by management and employees, initial public offering, sale to a subsequent receipt of rent, transfer of assets).

The decision about which models will be used for specific projects will depend on various factors such as validity (profitability), availability, principle of accounting for the debt and the interest of investors/creditors.

Although many countries are turning to PPPs in the hope of speed the development of infrastructure, PPPs is an extremely difficult policy tool that even developed countries are making efforts for effective implementation of projects. Thus, it is essential that public authorities carry out a real estimation of their own institutional capacity, regulatory framework and other important factors of success, particularly, political will and deliberate strategy of industrial development.

It is unlikely that the PPPs will ever completely replace the traditional model with the participation of the public sector in the provision of public services. PPPs is just one tool among many that state authorities have to build infrastructure and provide services.

In addition, the PPPs has shown its potential to resolve issues related to the lack of infrastructure, as well as to achieve high efficiency of expenditure of funds. Among some of the clear benefits of PPPs we can note follows [6-10]:

1. Accelerated implementation of infrastructure projects: due to the fact, that the payment is tied to the provision of infrastructure or services, PPPs have a substantial list of achievements to complete construction in time or ahead of schedule. Besides, taking into account that PPPs usually let you spread the cost of investments in infrastructure for the whole life of the asset, the implementation of infrastructure projects can continue without a significant initial financial investment by the state. It enables citizens to benefit from the investment much earlier than traditional funding based on budget capacity.

2. Optimal risk sharing: PPPs transfers certain risks in the life cycle to the private partner, thus creating incentives for better quality and more cost-effective provision of services. For example, by transferring the risks of construction, operation and maintenance to the private partner, strong incentives are created for the construction of high-quality facility that is perfect for operations and does not prone to failures. Similarly, tying payment to operational readiness of the facility of infrastructure and provision of service, the private partner is economically motivated to provide infrastructure facility to a term or provision of services of high quality.

3. Additions budget / additional capital: with help of the transfer of responsibilities for financing on the side representing the private sector, PPPs provide, finally, the inflow of private capital to public infrastructure or services.

Such mobilization of additional capital allows governments to increase the general level of investment in development of infrastructure.

4. Focus on customer service: taking into account the use of incentives based on results of activity, the PPPs has confirmed reputation of improving the quality and level of services. Private organizations that provide services, offer the knowledge and experience of higher quality, and innovation in the private sector increases the level of providing quality services. Besides, the state sector saving itself from the everyday provision of services, is able to act as a more effective regulator, focusing more on ensuring provision to the private operator the desired level of consumer services.

5. Increasing the level of efficiency and cost savings: the efficiency of the private sector in conjunction with the optimal allocation of risks can provide significant cost savings in the provision of public infrastructure and services. The cost savings from PPPs is typically implemented in the form of lower construction costs, reduced life cycle costs, improve efficiency, and lower costs of associated risks.

6. Additional income: innovation and motives of profit in the private sector can create incentives for the private partner to develop new and creative sources of revenue from public infrastructure. Such new sources

of revenue can be shared with the state, which creates additional sources of revenue for other social priorities.

7. Accountability: PPPs services are provided in the framework of firm contracts between state authorities and private partners. The state authority determines the level of services, then checks and adjusts the quality of services, using financial incentives to improve targets or punishing for poor performance.

8. Private sector development / investment opportunities: PPP provides stable long-term investment opportunities for the private sector, and the possibility of entering the sector of providing services that were monopolized by state authorities previously.

## 5. Conclusions

PPP enables the public sector to focus on strategic functions and results: by the release of the public sector from direct provision of non-strategic services, the government can focus its minor resources on their core tasks.

In spite of its potential, PPP is not a panacea. Public-private partnerships have certain difficulties, which we must admit: they are difficult and relatively inflexible structures; support and implementation of the PPPs can be prolonged, and expensive, in this connection PPP is not acceptable for some projects; imposes additional responsibility on the public sector, which should be ready to act as a competent side and controller; can lead to higher fees from users after the abolition of explicit or implicit subsidies and disclosure of the real cost of services; does not provide absolute transfer of risk, the public sector always retains certain risks; almost always involves "contingent liabilities" for the public sector; not all projects are suitable for PPPs [6-9].

Indeed, despite the fact that PPP has significant benefits as security infrastructure, when it is improperly organized, PPP can cause significant problems. To avoid pitfalls in PPPs, the government should to apply international best practices in the

organization and implementation of PPP projects.

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## Homophily in Social Networks, Bridging and Bonding Social Capital. Implications for Development

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### Abstract

*The social capital concept and the approaches developed along this line of thought have captured the attention of several scholars involved in social and economic development. However the complexity of the social capital concept and its complicated mechanism make it quite difficult to understand how social capital contributes to more prosper communities and societies. The present article focuses on two particular forms of social capital - bridging and bonding – and aims to review and highlight some of their different implications for socio-economic development. In doing so, I discuss some theoretical nuances related to the bridging and bonding distinction.*

**Key words:** bridging social capital, bonding social capital, homophily, social networks, socio-economic development

**J.E.L. Classification:** Z130

### 1. Introduction

The social capital approaches have become very popular in the last three decades among scholars concerned with socio-economic development. One of the important reasons for the academic interest in social capital comes mainly from the necessity of better understanding development problems and also of identifying new ways for achieving development in a sustainable way.

The social capital concept appears to have some illuminating potential in this regard, particularly because it allows us to approach development issues from a different angle, which has been rather obscured in the past. Thus, the merit of the social capital theories is that it weakens the privileged role of

traditional forms of capitals as related to development by shifting the focus towards the value of social relationships and networks. Social capital scholars, essentially argue that relationships and networks are central to economic and democratic performance [1]; [2]; [3]; [4].

Despite of this promise and of the academic effort to advance social capital theory and practice, engaging with this concept continues to remain problematic for several reasons. Among others, defining and measuring social capital constitutes a challenge particularly because it is still debatable “what exactly is social capital a stock of?” [5, p. 7]. In essence, social capital definitions point towards the value embedded in social relationships and social networks [1], however by emphasizing different aspects. For instance, Robert Putnam underlines the importance of network, trust and norms which „resolve collective problems more easily” [1, p. 288]. Similar Narayan [3] and Fukuyama [6] argue that social capital refers to the norms which enable the cooperation of individuals and the achievement of desired goals. Coleman [7] and Lin [8], [9] point towards the resources embedded in social relationships which can be mobilized in the pursuit of individual or collective interests.

While defining social capital is an yet uncompleted project, there seems to be little doubt regarding the added value of the social capital concept for the maturing of the economic sociology field of study [4]. Also several studies have managed to date to produce consistent evidence that social capital is essential for the welfare of individuals, communities and society at large [1]; [10].

The present article focuses on two particular types of social capital – *bridging* and *bonding* social capital – and aims to review and discuss some of their implications

for socio-economic development. Since the new pair of concepts has been also plagued with vagueness and ambiguities, I explore two different approaches of bridging and bonding social capital in search for unified understanding of the two concepts.

## 2. Bridging - Bonding Social Capital

Political scientist Robert Putnam, also known for his valuable contribution to social capital theory, introduced the distinction between two forms of social capital - *bridging* and *bonding social capital* [1]. Putnam's aim is to draw attention upon the diverse functions, outcomes and downsides of different types of networks and relationship patterns in society. To better explain his understanding of bridging and bonding social capital, Putnam draws on Mark Granovetter's [11] “strength of weak ties” argument and on Xavier de Souza Briggs perspective of social relationships [12]. Accordingly bonding social capital refers to strong ties and is good for “getting by” while bridging social capital is built across weak ties and is useful for “getting ahead” [1]. In Putnam's view, bonding social holds communities together creates a sense of belonging and cohesion, whereas bridging social capital refers to connecting resources and bridging diversity [1]. In other words, bonding social capital appears to be more valuable from a community identity perspective, whereas bridging social capital is important for progress and growth. In this light both types of capital are important for development. However, since bonding social capital is constructed in homogeneous groups, it is rather limited from a resource perspective, because resources become redundant [11]; [13] More than that, strong ties and solid groups (could) foster in-group identities and encourage hostility which in turn blocks the access of new comers [1]. This is why Putnam suggests that too much bonding might be detrimental: “A society that has only bonding social capital will look like Belfast or Bosnia – segregated into mutually hostile camps” [2, p. 3).

The bridging - bonding dimension of social capital has been rapidly picked up by scholars committed to understanding how social relationships and networks may yield benefits for individuals, communities and

societies. However, the review of studies concerned with the two concepts, clearly shows that scholars face difficulties particularly in their efforts to measure and analyse the two types of social capital. As Geys & Murdoch [14, p.122] put it „the empirical operationalization of bridging versus bonding social capital is at best underdeveloped”. Furthermore, scholars seem to have different understandings of the social capital bridging-bonding dimension. While some scholars [15] interpret the two types of social capital based on spatial proximity criterion and others [16], [17] emphasize the diversity (of resources) present in social networks.

These differences in research approaches makes the articulation of coherent conclusions and further research directions quite problematic. Most importantly, in the absence of reliable and consistent findings, bridging and bonding social capital are of little use for social actors involved in development programs.

## 3. Homophily in Social Networks

Lin suggests understanding social capital in an economic logic of investments and returns. In Lin's view social capital represents thus the surplus value generated by the investment in social relationships and networks [8]. Relationships have an intrinsic value, because of the different kinds of resources embedded in these networks which can be accessed and mobilized by social actors according to their needs, interests and purposes.

In the attempt to found a network theory of social capital consistent with this view, Nan Lin [8], [9] proposes a different perspective of the two types of social capital introduced by Robert Putnam. Lin [9] aims to formulate a more precise understanding of the value generated by different types of relationships and networks by linking *interaction patterns - resources* and *individual or collective goals*. In so doing Lin argues that the utility of the resources which actors can mobilize depends also on their aims, which can be either expressive “maintaining cohesion, solidarity or well-being” [9, p. 52] or instrumental “gaining wealth, power or reputation” [9, p. 52]. Further, drawing on Lazarsfeld's and

Merton's [18] homophily principle, introduced by Lazarsfeld and Merton [18], Lin suggests understanding bridging and bonding social capital according to the degree of similarity present in the network which also reflects the diversity of resources. Lin explains this as follows: “As the relationships extend from the inner layer to the outer layer, the intensity of relationships decreases, the network of network decreases, and, most critically, resources embedded among members become more diverse or heterophilous” [9, p. 61].

Lin's conceptualization of bridging and bonding social capital according to the homophily principle is useful for several reasons. First and perhaps most important, it provides a clear(er) framework of analysis and measurements for bridging and bonding social capital. Secondly, it helps explain partially the dynamics of social capital particularly of the resources embedded in social relationships as a result of repeated interaction. According to the homophily principle, the more individuals interact and communicate with each other, the more similar they tend to become [9]. Therefore from this perspective, repeated interaction, leads as suggested by Burt [13] to redundant resources (the case of too much bonding social capital).

Third, understanding bridging and bonding social capital in terms of degrees of diversity present in a group helps illustrate how and why bridging and bonding are not mutually exclusive. Since individuals may be different in some characteristics and quite similar in others, we cannot claim that a particular group or community has only bonding or bridging social capital. This is in fact consistent with Putnam's view who argued, that bridging and bonding should be understood in terms of “more or less” and not in terms of „either-or” [1, p. 23]. This why, referring to bridging and bonding in terms of degrees of homophily/heterophily might facilitate both understanding and measurement of the two types of social capital.

#### **4. Bridging and Bonding for Development**

As it has been suggested by Briggs [12] and Putnam [1], [2] bridging social capital appears to be important for „getting ahead”

while bonding social capital” is rather useful for „getting by”. In this light, bridging social capital appears to be particularly valuable for economic development and performance. Yet bonding social capital is also necessary to build trust and secure the solidarity of the group or community.

Given the diverse potentials of the two types of social capital, scholars found these two concepts very useful for addressing several problems of socio-economic development. Accordingly several studies present evidence and discussions on bridging and bonding social capital and their implications for development. A detailed discussion on all various challenges associated with bridging and bonding social capital exceeds the limits imposed by the present paper. I will however attempt to highlight some of the important arguments advanced by scholars with regard to development.

Woolcock & Narayan argue that bridging social capital is the particular type of capital needed for economic advancement, poverty reduction and empowerment of the poor [19]. Poor communities are often rich in bonding social capital and do not manage to alleviate poverty because „they lack the resources and access to power that is necessary to shift the rules of the game in their favour” [19, p.7]. Therefore bridging social capital is extremely important for the poor to overcome their limits and to prevent them from remaining trapped in their condition. While intra-community ties are important for strengthening the communities, creating solidarity and loyalty and even granting access to resources, it is in fact the diversity of such resources that increases welfare: „as the diversity of the social networks of the poor expands, so too does their welfare” [19, p.9].

Yet, several scholars - including Woolcock and Narayan - draw on the example of the Grameen Bank mechanism to illustrate how social capital is relevant for poverty alleviation. Indeed, Grameen Bank, known worldwide as the most successful microcredit program for the poor, is based at its core on social capital [20]. First, since loans are given to groups of people, receiving a loan from Grameen Bank requires the mobilization of bonding social capital as collaboration and trust. By contrast to a

regular bank, Grameen Bank uses social collateral to ensure the repayment of loans [20]. As Hossain argues, the closeness of ties in Bangladesh villages exerts a pressure over the members of the groups because „wrong-doing of one person can badly affect the reputation of that person in the society” [20, p.18]. In this case bonding social capital is essential for getting a loan from the bank. Secondly, the Grameen Bank mechanism forces poor people to interact on weekly basis with the employers of the Bank, allowing them to acquire bridging social capital. In this process, borrowers come to be exposed to different information about education, sanitation, health etc. which enables them to change and improve their life-standard [20]. In other words, relationships with the people „unlike them” and the presence of heterophily in their networks, has an empowering role in poor people’s lives, beyond the economic empowerment. Evidence shows for instance that participation in the Grameen Bank loan mechanism increased contraception use and decreased domestic violence against women [20], [21], [22]. Thus, in this case both bridging and bonding social capital play an important role in economic advancement.

Similar arguments hold true in the case of entrepreneurship, including entrepreneurship of the poor. Any entrepreneur interested in starting his/her own business may rely on strong ties – family and close friends – in the start-up phase. Levitte [23] underlines the role of bonding social capital both as support group and as “marketing tool” - through word of mouth. However, the growth of the business comes with particular needs and challenges in different stages of development. This is where bridging social capital becomes necessary and valuable. The link to diverse networks, professional associations and groups can open access to new useful information, diverse connections with different expertise which are extremely valuable for business development. The bridging/bonding distinction explains why for instance professional networking is valuable for entrepreneurs. In fact, Naphiet & Ghoshal [24] argue that the ability of firms to mobilize social capital explains the performance differences between firms.

Uslaner brings in the forefront the role of bridging and bonding social capital from a

perspective centred on trust [25]. In his view bonding social capital is more likely to generate particularized trust while the bridging type is important for enhancing the generalized trust in a society. Also, generalized trust and bridging social capital appear to reinforce each other: “But the more demanding forms, those that really tie us to people unlike ourselves, both depend upon generalized trust *and* reinforce it” [25, p.105]. According to Uslaner the “moralistic” trust is vital for the health of societies because not only it promotes tolerance and fosters altruistic behaviour but is equally valuable for corruption and criminality reduction [26].

On the other hand several studies show that bonding social capital is also critical for developing sustainable and prosper communities [27], [28]. Strong ties drive civic engagement and help individuals act collectively and pursue common goals, which in turn is beneficial particularly for deprived groups in order to raise awareness of their problems and also to create pressure for institutions and governments in charge with the design of public policy.

## 5. Conclusions

The present article has been an attempt to highlight some of the implications of bridging and bonding social capital for socio-economic development. I have tried to capture the relevance of these two types of social capital for the welfare of individuals and communities while simultaneously underlining some of the tensions present in studies interested in better understanding how the bridging – bonding differentiation benefits socio-economic theory and practice. Perhaps the most important conclusion up to this point is that even if bridging social capital has been often privileged by scholars, evidence shows that bonding social capital is equally important for sustainable development. Furthermore, the utility of the (potential) benefits derived from weak or strong ties may vary according to situational and contextual factors. Therefore further theoretical and empirical effort is required to uncover the bridging/bonding dynamics in specific cases and at different analytical levels. A context sensitive, in-depth understanding of network benefits will help

make bridging and bonding social capital better serviceable for development theory and practice.

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**Section II**  
**Business Economy and Administration**

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**Subsection 1**  
**Economic and Social Studies**

## Proposals for Implementing Data Analysis Solutions for Fraud Detection

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### Abstract

*In the current informational context (I-society) it is necessary to introduce proactive analytical guidelines, in order to prevent and detect fraud in the economic, financial and fiscal fields. Practical ways through which can be prevented and identified frauds are extremely diverse, but those with a higher rate of success are the ones through which is achieved an objective analysis, by exploitation of databases.*

*Although in Romania the institutional framework for detecting fraud is created, the information processes that capitalize the potential of intangible assets (data, information, knowledge) are not exploited in a systematic way and are not integrated into the decision-making act (whether strategic or operational).*

*Designing a fraud-detection system will take into account a number of issues relating to: identify areas with high risk of fraud, access to historical events that have been laid down as indications of fraud (historical data), environmental features in which the company operates etc.*

**Key words:** fraud, IT integrated system, data analytics, risk analysis

**J.E.L. Clasification:** G32, K42, O39

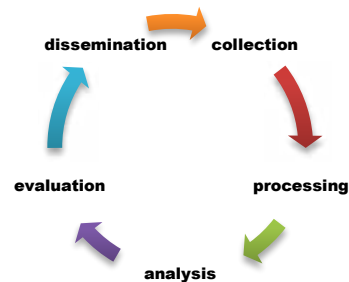
### 1. Introduction

Reconsideration of activities for prevention and combating tax fraud, must have, as its starting point, the fact that although some ways of operation have remained unchanged, the detection process is greatly hampered by the sheer volume of data to be analyzed.

The first step consists in improving horizontally and vertically communication of the data of interest and improving IT infrastructure, in the context in which the collection, processing, analysis and dissemination of data (figure 1) are not

enough developed at the level of public and private entities.

Figure 1. The analysis process



**Source:**[http://en.wikipedia.org/wiki/Intelligence\\_cycle](http://en.wikipedia.org/wiki/Intelligence_cycle) [1]

Lato sensu, fraud investigators on any field of activity should use the analytical tools, specialized software, GIS tools and data bases for business intelligence. Anti-fraud activities are recommended to be carried out and coordinated by a group of specialists, with clearly defined tasks, with different experiences, in order to cover issues as diverse as possible. The carrying out of specific activity generated by fraud detection can be performed by statisticians, computer scientists, and data/ information analysts.

The control and audit structures face with a number of restrictions, limitations, and a possible solution of their overcoming is operationalization of an integrated information system for prevention and detection of fraud. By integration, applications and data should be combined into an approach that ensures more than access to information and economic processes. Such a system seeks effective and efficient solutions and gives the company the opportunity to implement a common interface, allowing an informational integration of all departments and management of data flows, establishing an environment in which can be adopted future technological initiatives, under remodeling economic processes or defining new ones.

Beyond promises, firstly implies

developing plans and establishing appropriate methods and tools for transition from disparate applications to a single platform. Information integration should be seen as an ongoing and long-term strategic investment, because its benefits are not revealed immediately but in time [2].

The current technological development shows that the use of data analysis processes is not to an option for the current business environment, but an objective necessity, so that the application of analytical methods and techniques will be a requirement for survival of economic entities, a means of risk control management.

## 2. Choice of field-specific analytical solution

In order to implement this approach, it should be considered that the analysis of data and information is predetermined by the types of decisions that happen in an organization: **strategic** (*top level management processes and their impact on the organization's resources and the socio-economic context of the conduct of commercial activity. Ex: changes of legislation, investment in certain resources, professional training, retraining/changes of internal working procedures, changing the ways of collecting information, entries on new market etc.*) and **operational** (*at the level of executive management and their impact on work processes at the executive level: e.g.: decision of notifying the competent structures for suspected fraud, assessing referrals/complaints of fraud, claims decisions etc.*)

For each type of decision from different institutional levels, data and information analysis provides information products for their substantiation. Information products are the result of methodological approach of information analyst (*embodied in the evaluation report, the analysis report*) that marks the completion of the analytical approach of the information within the framework of intelligence-led management (decision-based substantiation of information).

Information products are: strategic assessments, tactical evaluations, target profiles and problem profiles. Obtaining informational products is carried out by

qualified personnel that applies the standards of information analysis within the process of analysis.

Auditors and fraud investigators must be conversant with the key conditions for detecting fraud. There are five such conditions: determine the organization's risk of fraud by studying its operational and control environments to identify risk categories and exposures; assess the risks and exposures; examine the risks and exposures from the fraudster's perspective, to determine what he or she can control or manipulate to make the fraud possible; understand the symptoms of fraud and data sources that may contain those symptoms; be alert to the occurrence of symptoms and know how to look for those symptoms in the data. [3]

Carrying out a **risk analysis program** would allow determination of those areas which are more exposed to fraud. By applying filters, can be detected significant risk fields for fraud (hot spot), by taking into account indicators as: risk nature, the degree of exposure to risk, the predominance of a particular type of activity, the probability of occurrence of risk, risk impact, risk responsiveness of control structures etc.

As a result of conducting a risk analysis, through a scoring system, is set a certain level of exposure to the risk of fraud, according to some general indicators of risk. The system should facilitate the analysis of field's risk, possible risk scenarios and assumptions of risk, by analyzing internal and external data. Later recommendations can be made on the extension or reduction of risk fields, scenarios or assumptions.

In order to manage risk issues we recommend a system with the following features and technical specifications: (i) high storage capacity of historical data and its validation (those related to operational risk, to the risk fields, to various events relevant for the field of risk analysis etc.); (ii) possibilities for manually or automatically introduce data; (iii) the possibility of creating lists of risks; (iv) updating of risk indicators; (v) creating and modifying rules of risk analysis; (vi) scoring system adapted to institutional needs; (vii) ability for real-time monitoring of risk fields; (viii) possibility for sorting, filtering, query, selecting data; (ix) to incorporate various data visualization tools, facilitating decision making process; (x) have

advanced editing tools; (xi) to facilitate analyses of scenarios; (xii) to include a flag system for the level of risk; (xiii) analysis of the evolution of risk indicators; (xiv) generate reports that will be automatically sent to authorized structures; (xv) premises to create risk profiles; (xvi) possibility of generating reports according to some templates; (xvii) statistical analysis capacity.

Although there are no solutions covering the entire range of situations generated by forms of manifestation of fraud, any minimal (basic) package, for the construction of a system for prevention and detection of fraud should include: the text conversion software; series like Microsoft Office or equivalent; add-ins for that series, allowing the increasing capabilities of analytic utilities; other tools for cleaning, combination or processing of rough data. The most important tool in detecting fraud is data analysis software. It is recommended to use a data analysis software to allow the import of various types of files (e.g., Dbase, Microsoft Access, Microsoft Excel, Adobe pdf, Odbc, text delimited, xml etc.). Import interface must be friendly, must contain elements of selection/customization of import as intuitive as possible, in order to facilitate the relevant activity.

According to the investigation that I conducted on the analytical products market (*Actimize, Activedata, Bankware.Net, Clari5 Efm, Esurksha, Fair Issac Falcon Fraud Manager, Firststrike Fraud Detection, Fraud Analyst, Fraud Barrier, Fraud Risk Manager, Fraudguard, Fraudnet, IBM I2, Minfraud, Oracle Bharosa, Palantir, Patriot Officer, Sas Financial Management, Sentinel Visualizer, SPSS etc.*), I've found that manufacturers tend to offer high-performance products. One of the main advantages that offer a data analysis software is that it is accessible inclusive to non users/experts in programming or economic statistics. At the same time, for more experienced analysts are included advanced tools with high sophisticated features.

**Data analysis software**, in order to be an effective tool, should include a number of functionalities and to facilitate the carrying out of various activities, like: to permit comparative analysis of available data; data viewing in various forms; dynamically applying algorithms for sorting, filtering,

display of entities and relations; to allow users to easily discover connections, patterns, and typologies of data from multiple and different sources; to make possible to choose a predefined import/export design to create an association between entities, as well as saving the created import specifications; to allow a predefined import arrangement to automatically create entities, relationships and attributes; to permit the examination and interpretation of data, eliminating duplicates, merging the attributes; to display the data in a visual form that exhibit a certain sequence of events; make it possible to automatically arrange in chronological order of events associated with other entities; to prepare statistical reports, graphs and diagrams necessary to the operations based on information analysis; to allow multiple methods of visual representation of information through charts: geospatial, association, temporal, statistical etc; customize diagrams, charts created by adding entries defining: author, category, comments, references, keywords etc; ability to save diagrams in .pdf or .jpg; to support large numbers of concurrent users running a variety of applications that operate with the same data; allow visual query of a database without requiring knowledge of query languages; allow the identification of key entities which control the network information, entities best placed within the network and that have the best visibility over the network activity, the most active entities or the most important ones.

At the same time, it is recommended that the analytical software to allow carrying out specific tests to identify the pattern of fraud.

Another aspect to be taken into account in the construction of a system for the prevention and detection of fraud is introducing tools for predictive analysis. These would enable analysis and running of large amounts of data, in order to achieve an appraisal regarding the development of a potentially fraudulent behavior.

In table no. 1 are presented in comparison, synthetic, the capabilities and specifications of the analytic system for detecting fraud and also of the predictive analytics system.

Table 1. Comparative analysis

<b>Fraud analytics</b>	<b>Predictive analytics (modeling)</b>
Uses historical data to detect fraud that has already occurred	Uses historical data to predict future outcomes
Linear process; the steps are performed in order, and typically the process is not repeated	Nonlinear process; steps can be skipped, and the process is reiterative
A hypothesis is formed at the beginning of the fraud engagement	Models are defined and created based on the particular business process
Analysis stage may continue longer than expected if additional hypotheses are formed	Process is repeated if new data or different variables are discovered
Hypothesis is tested and amended as necessary	Models are tested to determine success; modifications are made as necessary
Fraud analysis is used to locate fraud and can provide a model for future detection	Predictive modeling is used to complement the fraud analysis by creating a process to show red flags
Data quality is important to the analyst's ability to discover the fraud	Data quality is important to the success of the model
Uses all available data	Uses a sample of the available data
Constructs data (mean, median, mode) for statistical analysis purposes	Constructs data to fill in missing variables
Fraud analysis is performed as needed, not on a regular recurring basis, and ends with a final conclusion	Models are repetitive and cyclical in nature; they are always in process
Looks for anomalies in the data	Looks for anomalies in the data
Outcome cannot be predicted and is known only after the dissemination stage	Outcome or final goal must be specifically defined

Source: Spann D. D., 2014 [4]

An argument in favor of introducing data analysis software is that it ensures an increase in the profitability of the investment in investigative data analyses. As a result of an opinion poll conducted by an audit

company [5], it was found that entities use also data analysis investigative technologies, beyond the traditional tools of calculation and operation of data bases. Therefor it was generally observed the following advantages: improved results and recoveries, 11% more than others; earlier detection of misconduct, 15% more than others; more cost-effective results, 14% more than others; higher visibility to the board, 12% more than others.

### 3. Practical aspects regarding implementation of a data analysis solution

When defining, identifying, creating, implementing and operating the anti-fraud solution, with data analysis capabilities, we recommend taking the following steps and conducting the following activities:

- *analytical product/products identification* - from a functional perspective, the defining criterion in choosing such a product is the number of problems that can solve, and the capability of the system to meet the requirements of the user. On the other hand, these needs are influenced by financial and human constraints, as well as by the risks involved in the implementation of the analytical solution. In order to avoid the purchase of an inappropriate analytical product, it is recommended the testing of IT solutions, within the testing period (the manufacturer offers the advantage of a free application for a specified period of time e.g. 15, 30 days) and the identification of products based on the experience of other similar companies or organizations;
- *setting, as detailed as possible, of the costs of the products and of implementation and post implementation* - technical support, warranty, spare parts, consumables, subscription (it offers to the clients access to the latest updates of a product with no additional costs, these updates include any major changes made to the product's architecture, as well as the specific features of certain updates thereof);
- *identify the working team to use the antifraud system*, establishing the criteria for the selection, the way and duration of training on how to use the integrated solution;
- *creating working procedures*;
- *setting realistic implementation*

*period* in order to avoid exceeding the due date of execution;

- *the involvement of decision-making representatives* in the project and the establishment of the clear mandate of each member of the team. Avoiding the appointment of exclusive responsibility of implementing the task by a single entity (office, service, department etc.);

- *integrated solution provider should prove that he supplied similar products* before and to present, if necessary, any evidence to prove the execution of the service in good condition.

In the process of testing the analytical solutions you should consider a number of issues with regard to: the degree of compatibility with databases and technical solutions that already exist; the ability of software to import data (most products include a "wizard", which assists the user, suggesting the steps and at the same time creating prerequisites for correctly placing data); effective means of detecting an alleged fraud scenario etc.

The application of analytical technique involves the use of analytical tools and processes. Starting with the graphical representation of the analytic process (Figure 1), the system to be implemented should facilitate the following activities:

- planning activities related to analyzing process:

- ✓ defining the problem to be solved, the investigational area which shall be subject to analysis (*although it seems a logical step, we point out that most of the times the effects of fraud are not always visible*);

- ✓ acceptance of analysis theme, following the discussions with the applicant and/or recipient of the analysis;

- ✓ a negotiation of the reference terms ;

- ✓ development of the data collection plan (*identifying and determining the sources of obtaining the necessary data for the analysis: public records (judgments, records of mortgages, tax/criminal records), telematics, internet, open sources, social environments, talks with customers, public infrastructure, internal sources etc.*);

- ✓ establishing the methodology of investigation, of methods, techniques and tools of work;

- ✓ the establishment of the team members and support staff;

- create working assumptions (*represents a very important stage, and selecting the correct working paths will allow a moderate consumption of resources, time and energy*);

- carrying out the activities of the proper data analysis (using the methods and techniques of analysis):

- ✓ formatting data, their processing for analysis;

- ✓ a homogenization of data of the same type, their classification and clusterization;

- ✓ verification of data sets from databases in terms of their integrity and completeness. Empty or unnatural records negatively influence the whole process of analysis and, by default, the analytical finished product;

- ✓ data import in the analysis software;

- ✓ set of specific attributes for each entity, and the links between them;

- ✓ running various tests to look for symptoms, signs of fraud;

- ✓ running of multiple sequences to identify issues of interest;

- ✓ a preliminary data will be compared with other bits of data;

- ✓ a data compare process plays an important role in the process of analysing the data;

- ✓ identify, as appropriate, of a representative set of comparable items. The usefulness of this measure is to use positive and negative experience gained before by teams of analysts;

- ✓ a re-evaluation of the results;

- ✓ an export of this data in a specific format.

- development of an analytical product (creating the fraud profile (will be taken into consideration both the person and the current operating mode));

- the assessment of the analytical product;

- decide how to use the analytic product (beneficiaries' proposals );

- disseminating the analytical product for the beneficiaries

- results, operating modes, the entities involved in illicit activities may be archived and used later in the analysis, as elements of

comparison and positive practice.

#### 4. Conclusions

The modern IT tools offer new opportunities to both fraudulent subjects and control and audit structures. In our opinion, the manner in which further internal checks shall be conducted as well as the response of control structures to fraud, will largely depend on the ability to use methods and techniques in computerized environments.

In an ideal environment, the mechanism for detecting and preventing fraud combines both human factor, decision maker, as well as technical, reactive one. As sophisticated as technical solutions may be, creating hypotheses, mode of action and results exploitation will still be dictated by the human factor.

The potential of use of data analysis processes, in the work of prevention and detection of fraud, lies in the possibility of anti-fraud analysts, inspectors, or managers to act knowingly, to substantiate the decisions in a scientific way, to check data through multiple analyses.

Qualitative leap, after the implementation of an automatic detection system of indexes of fraud is huge, if you take into account that the organization will benefit from continuous monitoring of fraud in real time, and eliminate the drawbacks of static or periodic techniques for detecting fraud.

By building an extensive verification system and high quality of generated data, companies will benefit from an improvement in the efficiency of operations, in terms of security, which will generate further perspectives and opportunities to evolve.

Data analysis processes, as tools for prevention and detection of fraud, can be successfully used in any field, with preference in those with databases and where data are or may be readily converted into electronic format.

In the fiscal, banking, insurance or health field the existence of an anti-fraud structure is a sine qua non condition for survival in the business environment, in the current context of fraud exacerbation, of financial constraints and fierce competition.

In the near future, the biggest challenge remains implementing automated methods and techniques. It is absolutely necessary to

consider possibilities for expansion and integration of new models and computerized systems for the prevention and detection of fraudulent actions and support knowingly management decisions.

Successful implementation of an antifraud analytical system depends a lot on how to recover data from a variety of sources, considering that most of them have different formats. It is recommended that the collected data should be interpreted in the same way, using the same techniques and the same methodology, so that the creation of data bases to be homogeneous.

Although the implementation of a system for prevention and detection of fraud could be expensive, low degree of response to fraud and the inability to recover losses resulting from fraud or domestic abuse, could have adverse consequences, difficult to quantify.

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# Emergence and Progress of the New Paradigm of Development – the Sustainable Development

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## Abstract

*The global analysis of the socio-economic system of the last hundred years, especially of the period after the Second World War, shows the existence of two diametrically opposite trends which have influenced evolution: on one hand, the significant growth of economic results on an aggregated basis and per capita, and on the other hand, the degradation of the general condition of the natural environment, of the planet's health – a fact that shows that the concerns regarding the assumption of debt that economic development is doing for the natural environment and for the future of the planet are kept on a second level.*

**Key words:** sustainable development, global problems, environment.

**J.E.L. classification:** D00, E00, Q01

## 1. Introduction

Acknowledging global problems (extreme poverty, environment degradation and climate change, uncontrolled urbanization, licit and illicit migration, terrorism, economic and financial crisis, etc.), and the necessity of controlling them in order to find a solution (to ensure survival in a world which does not only resume to macroeconomic indicators, but is primarily a social environment whose general dynamic balance is at risk) has led to increasing concerns regarding sustainable development (as a concept which, based on the idea of equality of rights between future and present generations, has started to slowly replace the concept of economic development). Rethinking the human-nature rapports by shifting from the “enemy” status, for a non-declared war, to an “ally” status, within the so-called “natural organization” in which the economic process appears as a

sequel of biological evolution – it materialized in the appearance and development in time of a new branch of economic sciences, the economy of protection of the natural environment, “whose objective is to manage nature from the perspective of the harmonious join between the immediate interest with the perspective and permanent interests of human society, under the condition of maximizing the efficiency of the effort made” [1].

The beginning of the “sustainable development era” – started in 1992 at the UNO Conference on Natural Environment and its Development, held in Rio de Janeiro – marked the point when this notion passed from academic literature to the first page of newspapers and thus to the everyday language and to the constant concern of governments and international organizations.

## 2. Sustainable development

Sustainable development “supposes economic growth (not zero or negative growth) consistent with the demands of ecological balance (not simply with preserving nature) and the entire human development, which means that all aspects regarding progress by man and for man (culture, science, civilization, equality and equity between men, ethnicities, and nations) are taken into account” [2]. From this point of view, sustainable development appears as a complementary process to the one made by the transition to human economy – which, in turn “is a perspective born from the necessity of finding a profitable solution for men to the economic, ecologic, financial, technical and security problems of some entities caught in the irreversible network of interdependence” [3].

By making the human being - in all its dimensions - a priority, the *defining elements*



of *sustainable development* are given by: (i) general and universal compatibility between the natural environment and the one created by man; (ii) maintaining equal rights of generations; (iii) interpreting the present by thinking of the future and of maximizing the profit in line with ecological security; (iv) the compatibility of national development strategies with those of protecting the ecologic environment; (v) assuring the general wellbeing by going from quantitative aspects of growth to qualitative ones; (vi) redefining economic and social objectives, within which the ecological capital, the technical capital, the human capital are going to find their place; (vii) subordination of economic development objectives to the recovery of man, understood as the most complex creation.

Sustainable development represents, according to the Brundtland Report, that “type of development which satisfies present needs without endangering the possibility for future generations to satisfy their own needs” [4]. The main instruments and objectives of sustainable development are improving the quality of life and spreading global progress. From a company point of view, the aim regarding sustainable development is achieved if it aims for a triple performance: economic, social and ecologic [5].

In order to find the type of economic growth, the control of pollution, creating a legislative and institutionalized framework adapted to them and efficient and new systems: educational (able to anticipate and to deepen knowledge), economic instruments (which are able to prevent, to protect and to assure rare resources), specific indicators (after which we can estimate the quality of people’s life and development), the strategy of sustainable development needs a series of short term and medium term strategies, which can be extended on the long term in 20-25 years; because of this, regional, international and global politics are needed, at a company and country level, with objectives which are compatible in time and space, based on some criteria which come from improving people’s life. For grounding these policies is essential that at each level functions some ways of regulation, with an economic, legal, substitutional and informational character, which can ensure planned objectives. In order to assess the

ways of action, efficiency and effectiveness criteria are necessary on an economic and social, equity, feasibility, acceptance and institutional compatibility level. At any level of sustainable development, there should exist a strategic plan, with clear objectives, estimation criteria and measurement indicators, sustaining mechanisms (legal, economic, and cultural) with the ecologic process management, on each life cycle, as with the mandatory ecologic audit or with developing new clean technologies for achieving “zero defects”, etc.

The new paradigm of sustainable development has changed the way companies do business, and this change means:

- Instead of thinking that sustainable development means only costs and difficulty, companies understand that this concept means using resources efficiently and can generate opportunities;
- Passing from methods of fighting pollution based on treating its effects to using more effective and less polluting technologies on the entire production process and, moreover, trying to integrate sustainable development in business development;
- Passing from a linear approach, concentrated on production, to a comprehensive, systematic approach, which include the production processes and their consequences;
- Passing from the perception that environment and social problems are the responsibility of technical departments and experts, to the fact that there are, in fact, the responsibility of the entire company;
- Exaggerated confidentiality and secrecy have been replaced with a politic based on opening and transparence;
- The lobby politics with limited perspectives have been replaced with open discussions with interested partners.

In this era, which is characterized through open geographical markets, and through a high mobility of companies, era of know-how and of technology, a strategic direction of the company’s management can represent the necessity that the success of the company’s strategic management should be measured in a dynamic perspective, using the evaluation of its social balance [6], of

contributing to achieving and number of social and economic objectives, not only through productivity, economic efficiency, wanting the maximize the economic value of the company. Thus, seeing sustainable development more as an opportunity than a burden has proved to be a source of competitive advantage [7].

This major objective is necessarily compatible with taking into account the interests and the expectations of different categories of stakeholders, in a framework that maintains the priority of the economic role of the company, as this is not just a holistic concept, but a system created to make economic value; it actually represents an important investment, explained by the trust given by customers, by capital suppliers, by the engagement and the attachment of the staff and by respecting the obligations of the juridical, social and political environment in which it operates.

### **3. Translating the concept of sustainable development from a macroeconomic to a microeconomic level**

Applying the concept of sustainable development to a company level takes into account corporate responsibility – resulting from companies’ necessity to adapt in order to survive in a context radically changed by globalization and a higher civic activism. This approach has been adopted by big companies which show their engagement to sustainable development and adopt reporting principles based on the triple bottom line.

The concept of the „triple bottom line” (3BL) has been introduced and sustained by Elkington [8]. „The cannibals” whom the author refers to in the title of the paper are the companies which operate in continuous evolution capitalist economies, where it is natural for companies to devour its competitors, while “the fork” offered to these cannibals to pass to a new phase of civilization is represented by sustainable business. By using the fork, everyone wins: business, stakeholders, shareholders, society and the environment. Thus, the author takes into account companies’ necessity to adapt in order to survive in a context which is being modified by globalization and a more intense civic activism. Through the triple bottom

line, the author “expresses the idea that business does not have just one objective, added value, but it has to assume other ecologic and social responsibilities, thus tomorrow’s operation accountancy will include, besides normal financial calculations strictly economic of efficiency, a balance of the activities’ effects on the environment and a balance of the consequences of these activities on the social context”. The author devotes one chapter in his paper to the seven dimensions referring to the creation of strategies of those companies that have adopted or are going to adopt sustainable development (necessary to their own survival): markets, values, transparency, technological cycles, partnerships, and time and corporation management.

This type of approach has been adopted by big global companies that show their engagement to sustainable development and adopt reporting principles which are based on the triple bottom line concept. Thus, companies’ reports contain information on their performance in all three areas of interest, becoming an integrating part of guiding principles strategies and implemented operations. The triple bottom line concept has rapidly become one of the most famous concepts applied by companies in order to do “what is right”; thus, there have been created consultancy firms offering accountant services that respect the triple bottom line principle; companies in the Fortune top 500 which are proud of including the 3BL approach in their annual reports; various non-governmental organizations that encourage companies to adopt the 3BL. But there also are some authors who insist that the 3BL concept should be abandoned, because it leads to reality distortion, being a controversial principle that leads to only one dimension of performance, the economical one; it simply shows the social and ecological impact of the business, without being a measurement of performance, but a secondary concern of seeking economic performance.

In 2003, Stephen Young, Global Executive Director of the Caux Round Table organization (an international network that reunites mainly business leaders that promote moral capitalism), publishes the paper “Moral Capitalism. Reconciling private interest with the public good” [9]. The author

considers moral capitalism as the fastest way in which traditional and pre-industrialized economies can develop, create prosperity and adopt modern production technologies.

The increase of capital, in all its forms, assures companies the necessary resources for success on the long term. By assuring these capital resources, time transforms itself from an enemy to an ally of companies. The continuous access to capital resources allows companies to learn from their own mistakes, to surpass difficulties, to build a reputation and to have loyal customers. Without all these stable capital resources, both the business environment, and the country's economy are vulnerable in crisis situations, in unexpected changes of the market or simply in case of bad luck. The author considers that the principles of moral capitalism are valid to any type of company, small or multinational, and to any type of economy, traditional or postindustrial. The main idea of moral capitalism is that sustainable financial success depends on the matter if its business model incorporates the principle of social responsibility and the obligation of a good administration. Moral capitalism is based on the theory that companies generate five different forms of capital: reputational, social, human, financial and fix. Maximizing the impact of each capital type needs some special abilities, moral and interpersonal. The ethical standards increase the value of all these capitals of the company.

#### 4. Conclusions

The arguments for these principles and their justification are that trust and credibility are essential to the good activity of free markets, ethical business practice being the premise of trust and credibility, the lack of ethics and good practice in corporate management are not allowed, risking to overshadow the remarkable contributions of the business environment to raising life standards and to emancipating individuals all around the world. Orientated only towards satisfying their own interests and ignoring the expectations of other interested groups, the chase for profit leads companies, in the end, to failure and, sometimes, determine a contra productive regulation of the business environment. Thus, in order to protect the

fundaments of sustainable prosperity, it is necessary that business leaders assume and always declare the ethical engagements. It is also obvious that, for the market capitalist system to be worthy of respect and to be able to contribute to global prosperity, the business environment must act moral and responsible [10].

Yunus (2010) goes even further in his book, by stating that two types of business are necessary: some orientated towards obtaining personal benefits, and others dedicated to helping the others [11]. Businesses from the first category have the objective of maximizing the owners' profits, even if that would mean that the others will have no profit at all. Businesses from the second category want to create benefits only for the others, not for owners – they have the satisfaction of serving people. The second type, built on the unselfish nature of people, has been named “social business” and is the missing piece in our economic theory. The reminded author suggests that the social business is “the new form of capitalism, meant to respond to the most pressing human needs”. The social business is one where the investor wants to support the others, without keeping for himself financial gains. The social business is also an authentic business, generating enough benefits to cover costs and being capable to create the resources which all successful companies need to operate. When an economic surplus is gained, it is partially invests in extending the business and partially to form a backup to cover possible risks. Thus, a social business can be described as a company that operates under the principle “no loss, no dividend”, being fully dedicated to achieving some social objectives.

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## Theoretical Debates on the Potential of Social Enterprises

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### Abstract

*In this paper we are trying to theoretically highlight the positive potential social enterprises can have in the nowadays society.*

*Social enterprises have gained a great importance within the development of public policies and also in the work of different researchers. This is because it is considered to have an important potential on different aspects. Being a hybrid between profit enterprises and non-profit organizations and also being close to the public administrations, their influence can be seen from the transformation of the welfare system and the development of a job market for persons which would not be easily employed in a traditional for profit enterprise, to social cohesion and creation of social capital, local development, the dynamics of the third sector and the link between the network governance.*

**Key words:** social enterprise, enterprise potential, welfare system, employment

**J.E.L.** classification: I31, L31

### 1. Introduction

Social enterprises, as part of the social economy, depending on the perspective from which are analyzed (hybrid between nonprofit organizations and businesses [1], [2] versus provision of state services by social enterprise [3], [4]) are considered to be the saviors of the society in the context of repetitive economic crises. This is because the measures of austerity force the cut of public-sector funds which should be allocated to the solutions of different social problems. Taking this into consideration, social enterprises could have the potential to bring innovation and sustainable responses for the cause it addresses. However, it would require equally-sophisticated research

evidences in order to inform about its development and support in such a role [5].

More than the recognition of a great potential of the social enterprises detected by researchers, also governments have started to show an increased attention to the contribution and the potential role of these organizations [3]. In this context, social enterprises have been included as a priority in Europe 2020 strategy, but also in the previous programme periods, through the interest shown towards social inclusion, innovation, support for businesses and employment.

However, even if social enterprises are characterized by a great dynamism nowadays, they still are a small employer for disadvantaged workers and are a small supplier of social and community care services. This is the reason why it is difficult to detect the visible quantitative impact social enterprises have, and the potential of them can be analyzed mostly as a trend [6].

### 2. Social enterprises transforming the welfare system

Social enterprises, being characterized by an emphasis upon reinvesting profits back into the community in order to achieve a social mission, may present the potential of offering a community based solution to the cycle of diminishing returns from investment into public systems. It could bridge the gap between the problems faced by the community and the availability of adequate solutions [5].

The policies which were implemented in order to reform the welfare state in Europe do not have yet any certain outcomes. At least in the countries which relied on the stimulation of the market and of the for-profit enterprises, the costs for transactions and for contracts have increased more than it has been expected, and in many cases the quality of services and of the jobs has deteriorated.

Also, the regulations existing do not lead to the desired quality level.

In this context, a main contribution which can be brought by social enterprises is the distribution of the income to levels closer to the ones expected by the community. This can be made through the nature of private ownership and management of social enterprises, which contributes to the modification of the distribution of resources and income. Also, they influence the redistributive public policies, by addressing services to groups of vulnerable persons who are not recognized by the public policies. Beside the redistributive function, these organizations are forced to innovate in the field of services they provide [6].

Another influence of social enterprises over the welfare system is the improvement of the quality of services, through privatization policies. The success of this process consists of the development of a competitive environment and contractual relations based on trust. Social enterprises, being closer to the aims of the public authorities, facilitate the negotiation process and not least, they contribute to the cost reduction for production, not being focused on profits, being innovative and combining the customer satisfaction with the worker guarantees [6].

### **3. Social enterprises as a tool for the employment creation**

Social enterprises play an important role in the creation of jobs in the labor market, though the work integration social enterprises which by their nature integrate in the labor market persons which normally do not have possibilities to be employed in traditional enterprises or by developing a sector of service providers which has a high employment potential.

A mean for this to happen is the development of alternative policies which would change the composition of public expenditure from offering cash benefits to the provision of services or founding services.

Maybe a more important measure would be the encouragement of private demand growth and of the supply. These can be made by social enterprises because they are involved in low profitability productions, and because they can benefit also from donations

and volunteer work which reduces even more the production costs.

On another bases, social enterprises can create jobs when they are partly of fully financed by public funds, which happens when the activity of the organization has a high level of redistributive effect [6].

### **4. Social enterprises helping the social cohesion and creation of social capital**

Social exclusion has become a bigger problem with time in the today's society. The factors of the social phenomenon are more complex than unemployment, poverty and social exclusion, which mean that cash benefits and standardized services are no longer sufficient.

Social enterprises however manage to contribute to the improvement of community wellbeing and social integration through their work with specific vulnerable groups, integrating them into the labor market, enhancing user protection for the disadvantaged persons, improving service supply and involving users in the organization [6].

### **5. Social enterprises as a local development tool**

Social enterprises tend to be small sized, locally based organizations. They need to be continuously linked with the local community where they operate, this being a condition for their development and efficiency mainly because they facilitate the creation and exploitation of the social capital, they try to find the optimal combination of resources and they facilitate the understanding of social needs.

Social enterprises mobilize the resources of small communities [7] and contribute to the local development by creating new jobs for the community they serve. This contribution would increase in time when there organizations would expand their field of activity from social services to others, like cultural services, environment, transportation and so on [6].

Also from the local development perspective, social economy organizations granted for their “economic” and “social” nature, can offer a more clear perspective on the way local communities progress their

development agendas across multiple domains [7].

## **6. Social enterprises bringing dynamics to the third sector**

Social enterprises are part of the social economy and non-profit sector, but differ from the traditional organizations from these sectors: innovation in respect of the organizational forms, provided services and in addressing new needs, their use of varied resources and the strong inclination towards risk especially in the start-up phase.

More than that, social enterprises may be seen as the breakthrough in the non-profit sector of Europe, by combining the productive dimension and the entrepreneurial one of the non-profit organizations and by stressing on the economic and redistributive functions of the European welfare services.

Another innovation brought by social enterprises is the fact that they are a model for civil society and private organizations common effort in dealing problems of the community, by reducing the dependency upon grants [8]. This is because social enterprises are not outside of the market, as in the case of traditional public or non-profit organizations, but neither are they outside of the public system of allocation of resources, as in the case of for-profit enterprises. They use the rules both of the market and state and more than that they reduce the gap between associations and foundations, cooperatives and other parts of the social economy sector, by moving to productive and entrepreneurial behavior, democratic governance or primacy of social objectives according to what they traditionally lack in their conceptual existence [6].

## **7. Social enterprises as an institutional link within the network governance**

Social enterprises, as a hybrid form of organization, have the potential to link together different actors, being be the “institutional glue congealing network ties” [9]. This role is required to be assumed in order to coordinate the actors which previously have been disconnected, in order to give a response to the complex social needs mankind faces nowadays [10].

As described by Park and Wilding [10],

social enterprises have three types of potential in what concerns the strengthening of ties between various actors. One is the transfer of business ideas and good practices to organizations from non-profit or public sector, in order to help the two in interaction and competition on the business market. Analyzing the nonprofit sector, it is easy to see the fact that organizations do not want to participate in competitive markets. Social enterprises, being themselves a type of business which does not encourage the intense market competition, can play the role of a buffer between organizations from the public and private sector and the business world.

Another important role played by social enterprises is the collaboration with the governments in order to promote and serve as a model for organizational participation in governance networks. Nonprofit organizations and often businesses are in general afraid of collaborating with public institutions, because they wish to keep their independence, they find it difficult to relate with the ones from other sectors or do not understand the procedures of the public sectors’ activity. Social enterprises may be seen as more attractive to businesses or nonprofit organizations, when working closely with governments, because in this situation the relations may be easily reconfigured and organizations don’t feel any more in the shadow of the state.

The third role played by social organizations in linking different actors is the one of encouraging businesses and governments to pursue social goals, by choosing a more flexible approach to daily issues. In general, businesses do not consider social goals in their activity, or at least they are marginal to the business concept. In the same manner, governments may be inactive at responding to the social needs of the minority. In these cases, social enterprises may be better suited than nonprofit organizations to secure the participation of businesses and government institutions in governance networks. The reason behind this is the very concept of social enterprises which seek efficiency and try to make profits only when meeting social goals.

## 8. Conclusions

Our approach can be further supplemented with different other potentials the social enterprises have, according to the perspective on social enterprises – social organizations being part of the third sector versus the variation on CSR. More than that, there should be specific discussions on the potential of social enterprises in countries which have legislation in this field compared with those which are in the process of creation of such a regulation or with those who do not even consider it.

Further research is needed to investigate the potential of social enterprises and how to transform the potential in actual impact within the community. Finally, the discussed area would benefit more from quantitative and representative case studies which would serve as role models and research base. At the moment, the impediments of such a research would be that social enterprises do not represent a considerable part of the market and do not employ sufficient persons in order to be able to produce relevant results. However, the present studies do offer trends which are important for further research.

## 9. Acknowledgements

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## An Analysis of Specialized Translation and Terminology. Case Study

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### Abstract

*The main aim of this paper is to provide information for a better understanding of specialized translation. We have decided to tackle the terminology used in the industry of wind turbines technology, driven by our observations that, against the background of globalized economy, most communication, especially at the top level, is carried out in English, which, nowadays, is seen as a lingua franca. In order to comply with the norms of technical translation, we conducted research on several documents written in Romanian, reports released by wind turbine companies in our country, bilingual technical dictionaries, etc. In the last part of this paper, we selected and analyzed a range of terms and looked at the difficulties a translator may face.*

**Keywords:** translation, terminology, technical terms, wind turbines industry

**J.E.L. classification:** L00

### 1. Introduction

It is well-known that, since ancient times, language barriers can pose a great obstacle to the process of efficient communication. One of the biggest challenges faced by translators is represented by the constant development of terms and concepts, which should be communicated accurately into the target languages. The high level of precision that is necessary in the translation of specialized texts, such as technical texts, is what distinguishes it from the translations in other fields of knowledge.

The main aim of this paper is to provide information for a better understanding of technical translation, which, many times, has been referred to as including medicine or even law translations [1]. We have decided to tackle the terminology used in the industry of

wind turbines technology, driven by our observations that, against the background of globalized economy, most communication, especially at the top level, is carried out in English, which, nowadays, is seen as a lingua franca.

In our research, we are going to providing some useful information about some theoretical aspects regarding the translation methods and procedures. Moreover, we will also discuss the views on terminology as a scientific discipline and the challenges of technical translations. In order to reveal several aspects related to the norms of technical translation, we will further carry out research on a series of documents written in Romanian, reports released by wind turbine companies in our country, bilingual technical dictionaries, visual or etymology dictionaries and glossaries. The last part of this paper will analyze a range of terms and looks at the difficulties a translator may face when translating them into the target language.

### 2. Translation issues

A definition of the term “translation” involves taking into consideration two main approaches, i.e. translation as a product and translation as a process. Thus, translation can be defined as the action of converting the information or the meaning of a source text, and the production of the equivalent target text that communicates the same information or message in another language [2].

Etymologically, “translate” means to carry across a message or a text. It has also been defined as a process of communication that involves a sender and a receiver. Like any other forms of communication, the sender sends a message that is coded in a certain way. This code is received and analyzed or decoded by the receiver [3]. The communication is mediated through a third figure, i.e. the translator, who decodes from

the source language (SL) the message that is afterwards restructured, according to the target language (TL) patterns [4].

The problem with all forms of communication including translation is that breakdowns might occur in the course of reception of the message subject to translation. Even in same language communication, there is no guarantee that the receiver decodes the sender's message in the way the latter had intended. With translations, the chances of miscommunication are higher as the sender's and the receiver's codes are different and also, because it is mediated through a third figure, that of the translator. These issues are the source of the assumption that there is “loss” in the translation process, that complete equivalence is impossible [5].

### 3. Terminology as a science

Terminology is defined as the science whose aim is to study terms, which are lexical elements used in different specialized fields. In general, terminology involves three main processes: the compilation, i.e. the preparation of lists with terms belonging to a certain subject or field, according to a previously established methodology; the description, i.e. the definitions of each term (semantic focus) and description of the elements composing the term and its generation process (morphological focus); and the presentation (preparation of dictionaries) of terms [6].

In the eighteenth and nineteenth centuries, the leaders in terminology were the scientists who were mainly alarmed by the proliferation of terms, due to the developments registered in various fields, such as economy, medicine, technology etc.. They were worried about the diversity of forms and the relationships between forms and concepts but neither the nature of concepts nor the foundations for creating new terms were of concern to them. In the twentieth century, engineers and technicians became involved. The rapid progress and the development of technology required not only the naming of new concepts but also the agreement on the terms to be employed [7]. As a result of practice, terminological work began to be organized in certain specialized fields, such as law, medicine, economics,

technology etc.

Terminology, as we understand it today, first began to take shape in the 1930s. The most prominent name associated with the study of terminology is that of the Austrian engineer, Eugen Wüster. In his doctoral thesis, this specialist presented arguments for systematizing working methods in terminology, established a number of principles for working with terms and outlines the main points of a methodology for processing terminological data [8].

The same author also stated that “terminology” is a polysemic word referring to three different aspects related to compilation, description and presentation of terms [9]:

Terminology as theory: this understood as a collection of premises, arguments and conclusions on the relations between concepts of the words used to represent them and the nature of such words.

Terminology as a practice: it is seen as the collection of activities leading to the preparations of dictionaries.

Terminology as a thesaurus: it is viewed as the structured collection of all the words and expressions used in a specific science. It results from the application of terminological theory and practice. In this case, terminology goes with the name of the science whose terms have been compiled (for instance, medical terminology, maritime terminology, legal terminology, terminology in the field of economics etc.)

### 4. Issues related to the translation of specialized texts

The most common definitions related to the translation of specialized texts, such as technical translation, the translation of medical texts, of legal texts or of texts from the field of economics, refer, in general, to the translation of the texts written using Languages for Special Purposes (LSP). Therefore, technical translations, and technical terminology as well, include not only the translation of texts in engineering or medicine, but also such disciplines as law, psychology or economics.

In *Technical Translations: Usability Strategies for Translating Technical Documents*, Jody Byrne argues that law, economics or psychology are not included in

the field of technical translations and that technical refers to technological texts. “Just because there is a specialized terminology, does not make something technical”, stated the above-mentioned author [10]. Her arguments are based on the example of religion, which has a very specific terminology and style, but it is never regarded as “technical”.

## 5. Translation analysis. Case study

This analysis deals with the difficulties in translating a technical text from English into Romanian language. The source we have used for our analysis is a textbook, i.e. “Wind Energy Explained: Theory, Design and Application”, which is aimed at engineering students and, as the authors state in its preface, the book is also intended to be used by “anyone with a good background in math and physics” [11].

The corpus we have selected for our analysis acquires the features of technical writing: formal and object-centred language (use of passive voice), well-structured organization of the text which enables the logical flow of the information; short and comprehensive sentences, especially when describing processes and operations; specialized terminology: wide range of technical terms.

The main difficulty encountered in technical translation is represented by the specialized terminology. During the translation process, we have had to deal with terms from various fields, such as engineering, mechanics, physics, architecture or constructions. Therefore, a number of terms have been selected and analyzed in order to motivate the translating choices: airfoil, azimuthal position, backlash, bearing, blade, caliper, cantilever, chord, fatigue, hinge, hub, load, moment, pitch, skin, wake, tower, etc.

As already mentioned, the most challenging part of the translation was definitely the terminology. We have had to deal with high specialized terms but also with semi-specialized ones. The text combines terms from a wide range of domains, such as constructions, architecture, physics, maritime, aviation, etc. and we have had to research on each term’s meaning in every domain, to study dictionary entries,

glossaries, parallel texts and even visual dictionaries in order to render the precise information in the target language, i.e. Romanian.

In what concerns the terms used in general language, we have had to operate several selections according to the context. For instance, the term “design”, a very common neologism used in Romanian language, can pose linguistic difficulties if it appears within the same phrase. Bearing in mind that a translation must comply with the grammatical norms of the TL and that it involves avoiding repetition, there were instances in which we have used the term “design” but also “proiectare”. For example, the phrase “these will be influenced by the turbine design and must be considered during the design process” has been given the following translation: “acestea vor fi influențate de către designul turbinei și trebuie luate în considerare în timpul procesului de proiectare”.

In some instances, we have applied modulation, as a translation technique, changing the grammatical category. Thus, “the impetus is also there to keep...” has become “este necesar să se mențină...”. There has been a change at the semantic level too since in dictionaries, the meaning of “impetus” is a moving force, a stimulus, an impulse. Another example where we applied the principle of modulation is “the constraint of minimizing cost of energy has far-reaching implications”, translated as “a ține costul de energie minim reprezintă o constrângere cu implicații vaste”.

We have dealt with English terms, such as “couple” and “torgue”, both translated in Romanian with “cuplu” but designating different concepts within the same field of mechanics. According to technical dictionaries, in mechanics, a *couple* is a system of forces with a resultant moment. The resultant moment of a couple is called *torgue*. In physics, *torgue* is a moment of force (*momentul forței*, in Romanian). Another example is “speed” and “velocity”, both having the same meaning in general language but not in physics, where “velocity” is “speed” but with a direction vector associated.

We have tried to comply with the norms of technical translation and technical writing, focusing on accuracy, on rendering precise

information and striving for the economy of words because a technical translator has to “account for every word, every figure, every letter, every punctuation mark” [12].

## 6. Conclusion

This paper has attempted to raise awareness of the difficulties a translator has to operate with, regarding the technical field generally, and mechanical engineering, particularly. For this purpose we have selected our corpus from an engineering textbook “Wind Energy Explained: Theory, Design and Application”, written by James Manwell, Jon McGowan, both professors of Mechanical Engineering at the University of Massachusetts, and Anthony Rogers, a former research engineer in Renewable Energy.

The conclusion we have reached is that, when translating a specialized text (such as from the field of economics, law, medicine, mechanical engineering etc.), the translator should have a broad knowledge of the subject-matter of the text translated. Moreover, he/she should have a sense of discrimination, be able to choose the most suitable equivalent term from the literature of the field or from dictionaries and the ability to use target language with clarity, consciousness and precision. The research we have carried out has proved that each translation is exceptional and should be treated as a unique piece of linguistic art.

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## Legal Distinction between the Exception of a Non-performance Contract and the Lien

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### Abstract

*The complexity and variety of lien and of exception of a non-performance contract, is due to the fact that they inherently apply, having a natural vocation for the practical applicability. We believe that, through their explicit regulation under the New Romanian Civil Code, a new and more systematic generalization was established and, ultimately, a better use of these legal mechanisms as well.*

**Keywords:** contract, exception of a non-performance contract, civil obligations, lien, correlation.

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

### 1. Introduction

The exception of a non-performance contract is defined by a single body of law; Art.1556 of the New Civil Code, to be more specific, whereas lien is subject to a more comprehensive set of laws, contained by Art.2495-2499, which address lien; they anticipate the cases of impossibility of performance; it explicitly lists the rights and obligations the holder has; the possibility of removal of the lien and its enforceability, none the less. More over, the lien stipulates expressis verbis and for various cases in which it applies: Art.1694, Art.1722, Art.1154, Art. 937 of the Romanian New Civil Code, which indicates the fact that Romanian legislators follows the regulation of this legal mechanism more intently.

### 2. The legal distinctions between the exception of a non-performed contract and the lien

Albeit there are similarities between the two legal institutions, one must mention that the distinctions between the exception of a non-performed contract and the lien are obvious[1] :

1) The field of the lien not only applies to contracts, but also to situations which are not regulated by a contract, provided there is an objective correlation between the asset and the claim, while the asset claimed by the exception of a non-performed contract does not have only financially valuable, belonging to a wider filed, due to the fact that it could consist in the obligation of giving, performing or not performing something.

In order for the lien to be granted by the court of justice, besides the financial correlations, or between the claim of the holder and the asset itself (condition deemed to be essential in the literature of the respective filed), the following conditions must jointly be met[2]:

- The claim of the holder must be certain, liquid and payable. In that respect, it was decided that the mechanic who repaired the vehicle cannot be entitled to this type of guaranty, unless a mutual agreement has been reached between said person and the client, regarding the cost of the repairs done to the car[3].

In case there is a lack of clear claims, the jurisprudence does not allow the right of lien, stipulates: „the unconventional request for the acknowledgement of lien upon the building, for the improvements made to it. The recurrent defendant is not allowed to force the plaintiff if to pay for the value of these improvements, which

must be dismissed from the start. The recurrent does not possess a certain claim in which regards the building in question at the trial, because there is no written document to prove the existence of the claim or a court order to force the defendant to pay its debt for the improvements made to the building.” [4]

- The right to lien must be invoked before the current and exclusive owner of the asset, in the sense that the debtor of the sums to be paid to the holder and the rightful owner, has to be one and the same person.

In this regard, according to legal practice, the owner of the asset cannot invoke the right of lien: “In order for the request of lien to be allowed, the holder must be, partly, holder of an asset which he does not own, and, partly, creditor of the rightful owner of the asset. The request made by the owner is inadmissible.”[5]

- Fact which transforms the lien into a tangible property, movable or immovable.

According to the Case Law, incorporeal movables are not to be retained (goodwills), no rare assets of a strict personal use.[6]

- The respective asset has to be retained by the holder.

In the Case Law, the Court of Appeal in Iasi, Civil Division, under verdict no. 683/2000 considered that „lien is acknowledged for the creditor whose certain, liquid and exigible debt regards the restitution of a movable and immovable asset, regardless of the value of the debt and of the asset, by the time the debtor-owner of the asset- has paid the sums spent for the conservation, maintenance or improvement of said asset.”[7]

Contrary to that, the Court of Appeal in Bucharest, 3rd Division, verdict no.263/1983 provided the following: „the claim made by a constructor is not guaranteed by the lien of the construction, this is due to the fact that the right to retain the asset until the debtor has fulfilled its obligation is an exception to the common rule, and, thus, to the strictest of interpretations. Should the opposite theory be approved, the constructor would be allowed to indemnify the debt himself, via an exceptional and arbitrary manner, without legal intervention.”[8]

2) Another distinction between the two institutions lies in the fact that the right of lien is

indivisible, meaning it covers the entire asset until the full debt has been paid in full, and is also opposable erga omnes. On the other hand the exception of non-performance is either divisible or indivisible (similarly to performance, which is of two types from a political point of view: divided and non-divided) and only applies to the Contracting Parties, according to the principle of the relativity of the contract.

The holder of the lien has the right to retain the asset erga omnes until the full payment of the debt. As an imperfect lawful right, the lien can be, therefore, opposed to both the debtor and the persons who act as assignees with a universal title thereof (unsecured creditors of the debtor). Binding also operates for preferential creditors and the mortgagees of the debtor, however, following the retention of the asset by the holder, as well as for the subsequent subacquirer of the asset retained by the holder.

Moreover, the right to refuse the delivery of the asset is considered to be indivisible because the lien can apply to the entire asset until the debt has been paid in full. The creditor is allowed to retain the entire asset, until the full payment, even if the debtor has paid partially. In the event there is more than one debtor, the fact that a part of them has paid their debt in full, does not stop the creditor from refusing to deliver the entire asset, even if it is indivisible.

The indivisible character, which applies to other real guarantees (pledge, special movable privileges), in the case of the lien, it is justified through its nature. Being a means of constraint meant to determine the debtor to pay its debt in full, the right of lien excludes the establishment of a ratio between the guaranteed claim and the retained asset. From this point of view, there is an important difference compared to the *exceptio non adimpleti contractus*, which cannot be used unless the unfulfilled obligation is sufficiently important.

The French Jurisprudence states that the right of lien can be enforced upon the totality of the assets retained, the low amount of the claim being irrelevant. Moreover, this traces the limits of lien; in order to prevent abuse of rights and inequality.[9]

On the other hand, the right of lien is opposable to erga omnes, respectively: the owner of the asset, its unsecured creditors, preferential creditors or mortgagees subsequent to retention, tertiary purchasers of the asset, whose ownership title is subsequent to possession of the asset by the holder, as well as by other tertiary personae, foreign to the legal contract which originated it. Moreover, it is opposable to the subacquiring owner, as stated in legal practice.[10]

In what concerns the exception of non-performance, it implies that the one who enforces it is debtor of a payable obligation and that he has no other reason for refusing to execute their obligations than the refusal of the other party to perform its correlative obligation.[11]

All this considered, there is also an inconvenience consisting in the possibility of the abusive use of the exception of non-performance, by the Party invoking it, whenever it refuses to fulfil its obligations, or whenever it opposes, in bad faith, this exception to the contractual partner for even the minimum of non-performance. In these situations it is necessary to exercise judicial review in relation to raising the exception, which results in sanctioning the Party exercising this right abusively.

Moreover, the exception of non-performance implies, similarly to the rescission of the contract, a certain seriousness of the generating factor of the non-performance, attributable to the other contractual partner, while the holder of the lien can refuse the restitution of the asset, regardless of the amount of the unpaid debt the debtor owes.

3) The right of lien is exercised in virtue of the objective correlation between the asset and the claim of the creditor, whereas, the exception of a non-performed contract requires a volitional, intelligential between mutual obligations, arising from the same legal relationship; being founded upon the theory of the cause (in the sense that, every mutual obligation is the legal cause of the other, according to the reciprocity and interdependency of the obligations of the synallagmatic contracts).[12]

In order to claim the right of lien, an essential condition must be met; there must be a correlation between the debt to be paid to the holder of the asset and the retained asset, there must therefore be a *debitum cum re junctum* (objective or financial connexion). Thus, exercising the right of lien is justifiable, provided there is a constant and significant connection between the claim and the retained asset.

On the other hand, the exception of a non-performed contract is the outcome of the relationship of obligation. Therefore, two obligations will have to be executed precisely, at the same time, if the guarantee has not set a deadline for the debtor for the performance of the services, due to the fact that, at the moment of the conclusion of the contract, each Party desires to secure the commitment of the other and, especially, achieving the correlative obligation. To sum up, the notion of cause suffers a transformation at the moment of the execution of the contract. Therefore, if one of the Parties does not accomplish its incumbent, the obligation that the other has remains causeless, which justifies the refusal to perform it; reciprocity and interdependency of obligations, the fact that each of them is the legal cause of the other, involves the simultaneous execution thereof, thus, the possibility to plead the right of the exception of a non-performed contract, in case it is not fulfilled, since it represents the provisions of the contract. In case a Party were to be forced to fulfil its obligations before the other, this would represent a breach of contract. Therefore, the temporary suspension of performance of the contract is precisely the approach needed to obtain its fulfilment under the conditions designed by the two parts upon signing.

Legal practice has decreed that “in a synallagmatic contract, a party is forbidden to make a request without offering to fulfil its own obligation; otherwise its request would be rejected through *exceptio non adimpleti contractus*. The exception involves the simultaneity of mutual obligations, good faith from the one invoking it and the adequacy of the seriousness of its non-performance.”[13] Therefore, the exception of non-performance is a specific penalty of the fact that the Party,

pretending to fulfil its obligation, does not choose to perform its duties under the contract which it signed.

All this considered, the institution has proven that the lien and the exception of non-performance can coexist and not be mistaken for one another in the contracts between the same people.[14] The exception of non-performance has a tendency to suspend the performance of the contract drawn by the creditor, before fulfilling his obligation. Therefore, the exception of non-performance implies the existence of the contract between the creditor and debtor, whereas the lien has a different origin and can be fulfilled outside of a contract between the Parts involved.[15]

### 3. Conclusions

As follow-up to this analysis, we must conclude that, in spite of the similarities between these two judicial institutions (their functionality, the fact that both of them represent a guaranty of the fulfilment of their obligations), they are in fact dissimilar and have their own sets of rules of application, as a result of the basic distinctions, presented previously. Therefore, in what regards those synallagmatic contracts, there is merely an apparent overlap between these notions, giving rise to the obligation of handing the asset in question over. We have shown that the legal institution assimilates the exception of a non-performed contract for the effects it produces. Similarly, though under a different form, the main effect lien has consists in enabling the guarantee, possessing the asset, to refuse its restitution until the debt has been paid in full, whereas, the main effect of the exception of a non-performed contract is the suspension of the performance of the services by the excipiens.

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## The Effects of Merger and Acquisition on Employee

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### Abstract

*Understanding mergers and acquisitions is very important in the current economic context because it is known that most mergers and acquisitions fail due to lack of knowledge of the managers involved.*

*The purpose of this article is to identify the key issues concerning mergers and acquisitions in the field.*

**Keywords:** mergers, acquisitions, human factors, innovation, failure

**J.E.L Classificasion.:** M41, M42.

### 1. Introduction

Study mergers and acquisitions began to gain interest as their magnitude has increased, especially in the last decade. In the 80s and 90s, such studies were only at a basic level, and there were no bodies ability to monitor and quantify this phenomenon. Only in the last decade, when it was realized that mergers and acquisitions are a key component of globalization has been their observation and more careful analysis. Thus, more and more researchers began to dedicate to studying this type of strategy, enriching literature with more and more research on the subject.

The purpose of this article is to identify the key issues concerning mergers and acquisitions tackled reference publications in the field. Our research started with the selection of articles from databases such as

Science Direct; SpringerLink; Wiley Online Library; ProQuest Central; Oxford Journals Collection; Cambridge Journal Online; Emerald Publishing Group; Sage; Thompson ISI - Web of Science; Scopus, in the period from 1.01.2005 to 01.06.2015.

### 2. Analysis of the main topics on the issue of mergers and acquisitions

The Literature in the field of mergers includes articles from databases such as Science Direct; SpringerLink; Wiley Online Library; ProQuest Central; Oxford Journals Collection; Cambridge Journal Online; Emerald Publishing Group; Sage; Thompson ISI - Web of Science; Scopus, with the following characteristics:

- The period 01.01.2005 - 01.06.2015;
- After keywords mergers or merger, mergers and acquisitions;
- The impact factor  $h > 10$ .

Thus, from the database were retrieved 22 articles, the articles being grouped as follows:

- Title;
- Year;
- Country;
- Concepts used.

Such items are selected according to criteria specified in the table below.

*Table 1. Selection of articles specialized databases*

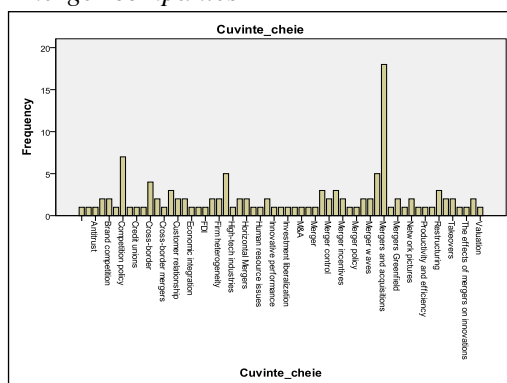
Nr. crt	Title	Year	Country	Concepts used
1	The Human Side of Mergers: Those Laid Off and Those Left Aboard	2005	USA	employee
2	What drives merger waves?	2005	USA	Mergers waves
3	Hold-up and anti competitive mergers	2005	Sweden UK	competition
4	Valuation waves and merger activity: The empirical evidence	2005	USA	Merger waves

5	The impact of cultural differences and acculturation factors on post-acquisition conflict	2010	USA	Cultural differences
6	The Culture-Performance Relationship in M&A: From Yes/No to How	2006	France Finland	Culture-performance
7	Spillover of corporate governance standards in cross-border mergers and acquisitions	2008	Netherlands UK	Cross-border mergers
8	Quantifying the effects from horizontal mergers in European competition policy	2005	France Belgium UK	European competition policy
9	Mergers and acquisitions: Their effect on the innovative performance of companies in high-tech industries	2006	Netherlands	Innovative, performance
10	Mergers and acquisitions in the US property-liability insurance industry: Productivity and efficiency effects	2008	USA	Productivity
11	Thirty Years of Mergers and Acquisitions Research: Recent Advances and Future Opportunities	2006	UK	Failure
12	Investment liberalization - Why a restrictive cross-border merger policy can be counterproductive	2006	Sweden	Cross-border mergers
13	Horizontal mergers with free entry	2006	USA, UK	Horizontal mergers
14	Empirical Analysis of Merger Enforcement Under the 1992 Merger Guidelines	2005	USA	Employee
15	Downstream merger with upstream market power	2005	Norway UK	Performance
16	Does corporate international diversification destroy value? Evidence from cross-border mergers and acquisitions	2008	Canada USA	Employee, value
17	Role of communication and HR integration: a study of a bank merger	2006	India	Human factor
18	Cross-Border Mergers as Instruments of Comparative Advantage	2007	UK	Employee, cross-border mergers
19	Cross-border mergers and acquisitions vs. greenfield foreign direct investment: The role of firm heterogeneity	2006	UK USA	ISD
20	Consumer surplus vs. welfare standard in a political economy model of merger control	2005	Switzerland Germany	Merger control
21	Collaboration and innovation: a review of the effects of mergers, acquisitions and alliances on innovation	2005	Netherlands	Innovation
22	Changing network pictures: Evidence from mergers and acquisitions	2007	Sweden UK	Employees

Source: own processing using scientific databases Science Direct; SpringerLink; Wiley Online Library; ProQuest Central; Oxford Journals Collection; Cambridge Journal Online; Emerald Publishing Group; Sage; Thompson ISI – Web of Science; Scopus)

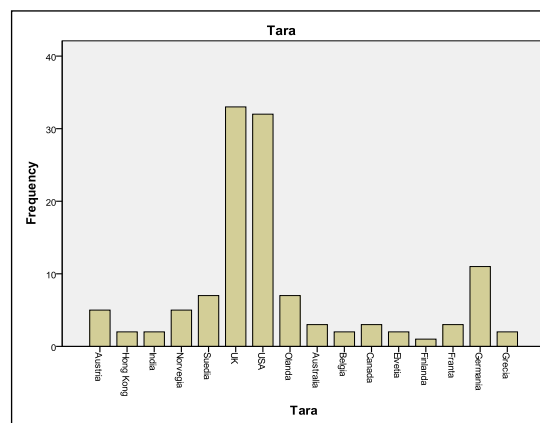
Most articles were main themes of merger research: mergers and acquisitions in general (causes of failure of the merger, the impact of the merger on employees, the impact of the merger on innovation, reasons to merge, competition policy etc. (Figure 1.).

Fig.1.Main themes of research merger companies



Source: own processing with SPSS.18.0)

Figure. 2. Classification of countries according to their interest in the issue of merger of companies



Source: own processing with SPSS.18.0)

The extent reached by mergers and acquisitions can be observed by the fact that they are not just limited to a few countries, which are present in most regions like for example Europe, Asia and North America (Figure 2. ).

This type of strategy is used by companies from developed countries to access the markets of developing countries in Eastern Europe, China or Latin America; Developing countries have become attractive because of the economic growth rate much higher and because the application recorded stagnation in developed countries. England and the US are most interested in the issue of merger companies, followed by Germany.

Most of the articles that have keywords mergers and acquisitions, analyzes the causes that lead to the failure of the merger.

Studies show that about 70% of mergers and acquisitions globally have failed to improve the performance of companies. A study by McKinsey shows that only 37% of US firms carrying out mergers fail to achieve better performance [1]. The causes of failure of mergers and acquisitions are: unable to achieve synergies between the two companies, cultural differences or differences in management level.

Previous experience in merger can greatly assist managers to learn from mistakes [2]. The question is, how many managers in Romania (an emerging country with a relatively small number of mergers) have passed their life by even a merger? So managers experience in merger can not be discussed, but managers should consult an entire team of professionals: lawyers, accountants, tax consultants, specialists in marketing and management.

The risk of failure can be avoided if examined all aspects of the manufacturing process, characteristics, product design, the rate of refusal, advertising activity, marketing, number of customers, employees profile. The decision to buy a firm must not be influenced by the fact that our office is in a building located on the beach and it has offices in luxurious buildings.

The authors Cernat Constantin and Iamandi believes that cultural differences can create trouble. If a society is conservative and the other company is translucent and open a

contradiction. An example of this is the merger of Daimler and Chrysler.

Buyers usually neglects the organizational culture in favor of a more detailed analysis of the company's systems and processes. This makes it sometimes during the integration process to impose some predefined schemes and thus to strike a lack of acceptance and resistance to change.

Managers must be aware of the cultural differences between organizations so as to avoid potential conflicts by means of common communication addressed to employees, customers and stakeholders for the success of others post-merger integration. There are no good or bad organizational culture. There is just a variety of cultures and it is those flying the integration process to seek the best ways to make them consistent.

Another leading cause of failure is lack of communication merger that creates uncertainty, uncertainty among employees, resulting in the loss of key employees and thus the skills and knowledge (know-how).

Often employees complain of uncertainty, conflicting rumors and uncertainty. They will ask the questions: will be restructured? I'll be moved to another department? What will happen to my boss ?.

In most restructuring, the message is the fact that all is well and there is no worry. Rather it is advisable message: yes, the integration will not be easy, but it is an important opportunity, not a problem.

Another aspect to note about the causes of failure is that very few companies have managers who have the ability to control companies in different branches. Over 42% of conglomerate mergers have failed.

Before making a conglomerate merger, managers should evaluate this problem and eventually get advice from specialized personnel.

Also no less important is the definition of roles, responsibilities, incentives and structures clear enough.

Immediately after the merger, most functions will be doubled, and the integration team must decide and communicate timely responsibly during and after the transition if they are to sustain productivity and employee morale. Effective Acceptance occurs if people can imagine themselves and their future in the new combined entity - which includes a clear understanding of what is

required of them and opportunities for personal development (career, compensation and benefits).

In a McKinsey report there is the statement: "Too much attention is paid to legal and financial aspects of the merger or acquisition". But executives who passed routed through a merger recognizes that the key to maximizing the value of a company is the human factor. Mergers fail because: lack of communication, lack of a refresher course, losing key employees, the loss of major customers, the cultural differences.

According to the authors Kay Shelton, problem employees are the major cause leading to failure of the merger.

*Table 2. Percentage of respondents who believe that the problem is critical employees*

Problems employees	%
Retaining key employees	76
Communication Retention of key managers	71
Integration and cultural differences	67
	51

Source: Kay, I.T., Shelton, M., *The People Problem in Mergers*, The McKinsey Quarterly, 2000, pp.29-37)

Despite studies that show that almost 70% of mergers fail to improve the performance of companies, the volume and scale mergers continuously increased globally. During the 80s there were over 55,000 mergers and acquisitions with a total value of over 1.3 billion, but the ensuing period (90s) led to an explosion of such transactions being made a double the number of mergers and acquisitions worth about \$ 11 billion. Not even the beginning of the new millennium has not given signs that growth would decrease, mergers and acquisitions is one of the favorite strategies of firms.

### 3. Conclusions

Although more than 30 years studying the phenomenon of mergers and acquisitions, the failure rate is still high. What would be the explanation? In our opinion three reasons can be advanced to explain this lack of

performance improvements over the years to companies involved in the merger process, namely:

- Leaders entities in many cases resorting to mergers and acquisitions of other reasons decât those related to value creation;
- Lack of collaboration between academic researchers and practitioners involved in merger and acquisition transactions and thus, insufficient exploitation of research results in practice;
- Research in the field of mergers and acquisitions fail to address all aspects implication that these types of transactions.

The conclusions of the study are based on an analysis of top research (Articles analyzed the impact factor  $H > 10$ ). If they extend the analysis and studies with lower impact factor, we will probably reach different conclusions.

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# The Study of the Evolution of M&As in the Current Economic Context

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## Abstract

*Mergers are cyclical. When the economy grows, this market increases oversized and when economy is decreasing, the mergers market drops further. Depending on the time in analyzing merger operations, the results may be different because of specific characteristics of each wave of mergers. This analysis aims to study the link established between the distribution and evolution of mergers and a number of macroeconomic factors, social and environmental factors: such as economic growth, stock index, the openness of the economy, central bank reference interest, inflation, unemployment, the duration of employment, the level of gas emissions, energy dependence, with the ultimate aim of generating a statistical regression model to analyze which factor has the greatest influence on the number of companies that have merged at European level.*

**Keywords::** Merger, growth, stock index, the openness of the economy, the central bank reference rate, inflation, unemployment rate, employment duration, degree gas emissions, energy dependence.

**J.E.L Classification.:** M41, M42.

## 1. Introduction

One of the most relevant studies on the link between mergers on one hand and macroeconomic factors, on the other hand, Nelson (1959) investigated the relationship between stock index, industry and number of mergers in the period 1895-1956[1].

By using simple regression established that there is a significant positive relationship between the variables analyzed and the period 1895- 1920 and 1895-1956. Although the results were remarkable, Nelson failed to establish a link between industry and merger activity. Clarke and Ioannidis (1996) investigated the link between mergers and stock index. For this has consider: number and value of mergers. Clarke and Ioannidis used Granger analysis (SPSS), on the mergers made in the UK in the period 1971-1973. The finding was that the stock index influence so the value and the number of mergers. The same results came Sharma, Mathur (1989) and Cernat- Gruci (2009) [2]. Geroski (1984) found no significant relationship between macroeconomic factors and M & A activity.

## 2. Research Methodology

Research methodology is based on setting objectives and hypotheses, operationalization of variables, selection of participants and data collection.

### 2.1 Setting goals and assumptions

The objectives of this methodology are:

**O1:** Establishing the link between development and a series of mergers of economic, social and environmental as well as economic growth, stock index, the openness of the economy, central bank reference rate, inflation, unemployment rate, employment duration, degree emissions, energy dependence, the European level and in Romania;

**O2:** Determination of the economic,

social and environmental influences consider the number of mergers.

Considering our scientific approach, we resorted to the following major assumptions:

General Hypothesis: Evolution of the number at European level and at the level of României is influenced by macroeconomic factors.

**Hypothesis 1:** Between the number of mergers and growth there is a direct link;

**Hypothesis 2:** Between the stock index and the number of mergers there is a reverse link;

**Hypothesis 3:** the central bank's benchmark interest rate is inversely proportional to the number of mergers;

**Hypothesis 4:** Between openness of the economy and the number of mergers is a direct link;

**Hypothesis 5:** Is the number of mergers and inflation there is an indirect link;

**Hypothesis 6:** Between the number of mergers and unemployment there is an indirect link;

**Hypothesis 7:** Between the number of mergers and duration in employment there is a direct link;

**Hypothesis 8:** Between the number of mergers and degree gas emissions there is an indirect link;

**Hypothesis 9:** Between the number of mergers and energy dependence are an indirect link.

## 2.2. The operationalization of variables

The study is based on data from the period 2005-2014 on the number of mergers, economic growth, stock index, the openness of the economy, the central bank reference interest and inflation. Data were retrieved from the Institute of Mergers and Acquisitions in Vienna and the Institute of Eurostat statistics. The nature and characteristics of variables used in the model are summarized in Table. 1.

Table. 1. The variables used in the econometric model

Nr. Crt.	Variables	Economic expression	Statistic vexpression
1	N	Number of mergers	Dependent variable Variable resultant quantitative Size

2	PIB/GDP	growth GDP = gross domestic product, index used to measure economic growth in României	Independent variable Variable resultant quantitative Size
3	Smi	stock index	Independent variable Variable resultant quantitative Size
4	G	The openness of the economy $G = \frac{Import+Export}{GDP}$	Independent variable Variable resultant quantitative Size
5	D	the central bank's benchmark interest rate	Independent variable Variable resultant quantitative Size
6	I	Inflation	Independent variable Variable resultant quantitative Size
7	Rş	unemployment rate	Independent variable Variable resultant quantitative Size
8	Dm	Duration in employment	Independent variable Variable resultant quantitative Size
9	Ggz	Degree emissions gas	Independent variable Variable resultant quantitative Size
10	Gen	Dependence on energy	Independent variable Variable resultant quantitative Size

Source: own processing

The equation of the regression model is expressed as:

$$N = \alpha + \beta^1 * GDP + \beta^2 * Smi + \beta^3 * G + \beta^4 * D + \beta^5 * I + \beta^6 * Rş + \beta^7 * Dm + \beta^8 * Ggz + \beta^9 * Gen + \xi$$

The methodological approach was used multiple regression model using SPSS 19.0 statistical tool

### 2.3. Selection of participants and data collection

We believe that macroeconomic factors, social and environmental factors that may explain the distribution and evolution of European mergers and României level in the period 2005-2011, are: growth, stock index, the openness of the economy, interest bank reference central and inflation, unemployment rate, employment duration, dependence on gas emissions, energy dependence. The data is taken from a report of Body European Commission Eurostat dealing with statistics c at and the Institute of mergers, acquisitions and alliances in Zurich and Vienna. On these data and observation method was applied statistical analysis to confirm or infirm the research hypotheses, without choosing to be random. Systematization and grouping data, indices, statistical analysis were used as methods to

achieve scientific research.

### 3. Data analysis and interpretation of results obtained

This analysis studies the relationship between the distribution and evolution of mergers and a number of macroeconomic factors, social and environmental, with the ultimate aim of generating a statistical regression model to analyze which factor had the greatest influence on the number of firms that merged.

From Table. 2 is the most significant finds that the link is between the number of mergers and reference interest rate the central bank. Between direct dependent variable - the number of mergers - and the independent variable -interest rate - there is a strong direct link, the correlation coefficient is equal to + 0,849, with a value Sig. less than 0.05.

Table 2. relationship between variables at European level  
Correlations

		N	GDP	Smi	G	D	I	R <sub>s</sub>	Dm	Ggz	Gen
<b>Pearso C</b>	<b>N</b>	1.000	0.104	0.584	0.127	0.849	-0.047	-	0.124	-0.476	-0.368
	<b>GDP</b>	0.104	1.000	0.444	0.023	0.537	0.435	0.523	-	1.000	0.159
	<b>Smi</b>	0.584	0.444	1.000	-0.500	0.621	-0.471	0.621	0.227	0.393	0.480
	<b>G</b>	0.127	0.023	-0.500	1.000	0.227	0.825	0.011	0.107	0.008	0.107
	<b>D</b>	0.849	0.537	0.621	0.227	1.000	0.266	0.008	0.460	0.011	0.282
	<b>I</b>	-0.047	0.435	-0.471	0.825	0.266	1.000	0.107	0.165	0.127	0.023
	<b>R<sub>s</sub></b>	-0.523	0.227	0.435	0.107	0.312	-0.500	1.000	0.008	0.849	0.537
	<b>Dm</b>	0.124	0.825	0.023	0.282	0.068	0.480	0.393	1.000	0.227	0.393
	<b>Ggz</b>	-0.476	0.266	0.621	0.159	0.825	0.621	0.227	0.825	1.000	0.008
	<b>Gen</b>	-0.368	-0.473	-0.500	0.312	0.011	0.107	0.435	-0.471	0.825	1.000
<b>Sig. (1- tailed)</b>	<b>N</b>	.	0.413	0.084	0.393	0.008	0.460	0.023	-0.500	1.000	0.227
	<b>GDP</b>	0.413	.	0.159	0.480	0.107	0.165	0.537	0.621	0.227	1.000
	<b>Smi</b>	0.084	0.159	.	0.126	0.068	0.143	0.435	-0.471	0.825	0.266
	<b>G</b>	0.393	0.480	0.126	.	0.312	0.011	0.227	0.435	0.107	0.312
	<b>D</b>	0.008	0.107	0.068	0.312	.	0.282	0.825	0.023	0.282	0.068
	<b>I</b>	0.460	0.165	0.143	0.011	0.282	.	0.266	0.621	0.159	0.825
	<b>R<sub>s</sub></b>	0.430	-0.523	0.124	-0.476	-0.368	0.430	-	0.266	0.621	0.159
	<b>Dm</b>	0.267	-0.500	1.000	0.084	0.159	0.476	0.267	-	0.393	0.008
	<b>Ggz</b>	0.412	0.621	0.227	0.393	0.480	0.537	0.621	0.412	-	0.126
	<b>Gen</b>	0.370	0.011	0.107	0.008	0.107	0.435	-	0.370	-	-
<b>N</b>	<b>N</b>	7	7	7	7	7	7	7	7	7	7
	<b>GDP</b>	7	7	7	7	7	7	7	7	7	7
	<b>Smi</b>	7	7	7	7	7	7	7	7	7	7
	<b>G</b>	7	7	7	7	7	7	7	7	7	7
	<b>D</b>	7	7	7	7	7	7	7	7	7	7
	<b>I</b>	7	7	7	7	7	7	7	7	7	7
	<b>R<sub>s</sub></b>	7	7	7	7	7	7	7	7	7	7
	<b>Dm</b>	7	7	7	7	7	7	7	7	7	7
	<b>Ggz</b>	7	7	7	7	7	7	7	7	7	7
	<b>Gen</b>	7	7	7	7	7	7	7	7	7	7

Source: own processing using SPSS 19.0 statistical software.

From Table. 3 it is noted that 95% of the variation in the number may be explained by

the influence of the independent variables. The difference is attributable to other temporary factors

Table. 3 Percent link between European-level variables

Model Summary <sup>f</sup>			
R	R Square	Adjusted R Square	Std. Error of the Estimate
0.958 <sup>a</sup>	0.918	0.505	2901.64993

Source: own processing using SPSS 19.0 statistical software.

The equation regression model, according to data presented above is as follows:

$$N = 30222.896 + 418.584 * GDP - 1,640 * SMI - 0,000 * G + 5398.247 * D - 6611.128 * I - 0.523 * Rs + 0.124 * Dm - 0,476 * Ggz - 0,368 * Gen.$$

Table. 4 regression coefficients at European level

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta				T	VIF
(Constant)	30222.896	192468.866	.157		.901			
GDP	418.584	9136.176	0.265	.046	0.971	0.002	405.445	
Smi	-1.640	14.639	-0.895	-.112	0.929	0.001	772.599	
G	0.000	.001	0.449	.137	0.913	0.008	130.630	
D	5398.247	13464.585	1.521	.401	0.757	0.006	174.568	
I	-6611.128	48329.407	-1.359	-0.137	0.913	0.001	1196.856	
Rş	-214.879	12.549	0.165	-.116	0.919	0.002	304.445	
Dm	0.456	.002	-0.785	.167	0.859	0.001	671.499	
Ggz	-2056.473	3664.685	0.329	.301	0.657	0.005	120.520	
Gen	-3895.105	4328.302	2.421	-0.127	0.813	0.004	184.368	

Source: own processing using SPSS 19.0 statistical software.

From the model presented some ideas emerge (see table no. 4):

If we keep constant the variables analyzed, a percentage increase:

- Economic growth leads to an increase in mergers and acquisitions with 418 mergers;
- Stock index leads to a decrease of 2 mergers mergers and acquisitions;
- Openness of the economy does not lead to changes in the number ;
- Reference rate dobânzii increase the number with a very high value of 5398;
- Inflation leads to decreased number of mergers with a high value of 6611;
- The unemployment rate leads to a decrease of 214 mergers and acquisitions;
- Duration in work does not lead to significant changes on the evolution of the number of mergers;
- Energy dependence leads to decreased number of mergers in 2056;
- The degree of dependence on gas emissions, decrease lead with 3895.

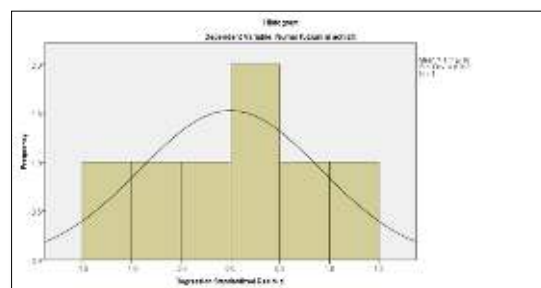
Compliance required by regression analysis assumptions can be verified using

The regression coefficients are:  $\alpha = 30222.896$ ;  $\beta = + 418.584$ ;  $\beta = - 1,640$ ;  $\beta = - 0,000$ ;  $\beta = + 5398.247$ ;  $\beta = - 6611.128$ ,  $\beta_6 = -0.523$ ;  $\beta = 0.124$ ;  $\beta = -0,476$  ;  $\beta = - 0,368$ .

The model reflects the influence of economic growth (GDP), stock index, the openness of the economy, the central bank's benchmark interest rate, inflation, unemployment rate, employment duration, dependence on gas emissions, energy dependence , the number of mergers at Europe level.

histogram chart.

Figure 1. Check the normality of research at European level through the histogram



Source: own processing using SPSS 19.0 statistical software

#### 4. Testing hypotheses based on data processed

In this chapter we will test the validity of each hypothesis, testing is mainly done using figures and graphs in the preceding chapters. Table. 10 systematize:

- Pearson correlation coefficients to determine if there is a significant relationship between the dependent



variable number of mergers and independent variables: growth, stock index, the openness of the economy, interest rates, inflation;

- The regression coefficients which determine the degree of influence of the independent variables on the number of mergers.

*Table. 10. systematization of regression coefficients and Pearson*

Macroeconomic factors	Pearson Correlation	Regression coefficients
GDP	0,104	418,584
Smi	0,584	-1,640
G	0,127	0
D	0,849	5398,247
I	-0,047	-6611,128
Rş	-0.523	-214.879
Dm	0.124	0.456
Ggz	-0.476	-2056.473

Source: own processing using SPSS 19.0 statistical software

Table. 11 summarizes the assumptions made in early research and decisions on validation or invalidation based on econometric model used.

*Table. 11. Validation of assumptions*

Objectives	Assumptions	Decision
<i>Analysis of the economic, social and environmental influences the number of mergers in Europe</i>	H1	The hypothesis is invalidated
	H2	The hypothesis is invalidated
	H3	The hypothesis is validated
	H4	The hypothesis is invalidated
	H5	The hypothesis is invalidated
	H 6	The hypothesis is validated
	H 7	The hypothesis is validated
	H 8	The hypothesis is validated
	H 9	The hypothesis is validated

Source: calcule proprii cu ajutorul programului de statistică SPSS 19.0

## 5. Conclusions and possibility counterfeiting results

The results of this research coincide with the opinions of the author: Nelson (1959), Mathur (1989), Cernat-Gruca (2009), Clarke and Ionnadis (1996), Broaddus (1998),

namely: there is a significant link between economic, social ff environment and changes in the number of mergers. Our study is useful for understanding the context in which the merging companies operate. The period of economic crisis and decline in Europe dobânzii not encouraged companies to merge. A reduction in the efficiency of using reference interest loans for companies and directs them towards the development of their work on the engagement of additional capital. The merger is directly infleuntata the lack of liquidity and credit decreased, social instability and environmental factors. The analysis leaves room for other interpretations and future research because, depending on the time, cultural and economic context când mergers are analyzed, results may vary.

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## Knowledge Economy Index in the Structure of World Economies

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### Abstract

*In conducting this article we considered that the XXI century is considered the century knowledge economy, because knowledge has become a vital asset for countries, companies and individuals. Therefore, the knowledge economy is a concept that refers to the use of knowledge to produce benefits, ie added value [1]. Thus, the benefit of the exploitation of knowledge (this resource materializes into inventions / innovations on new products / services performed by firms) differentiates the countries regarding growth potential and global competitive position. Thus, we analyzed two global indices with great interest to explain how to obtain competitive advantage and create national prosperity nationally and in terms of business organizations.*

**Key words:** Knowledge Index, Knowledge Economy Index, "education" pillar, "innovation" pillar "ICT" pillar called the indicator of "economic liberalization".

**JEL:** A10, F00, I21, O30.

### 1. Introduction

The consequences of having a volume / stock of knowledge (understanding that such stock is held by citizens and well qualified employees) by a country are found thus in economic and social development, in the efficient production of goods and services, in their marketing at small prices and offering them to a large number of people [2]. I mention that, recently, globally there are calculated two indices - KEI and KI - which allow understanding the detention of the competitive advantage and national prosperity (<http://web.worldbank.org>):

□ *Knowledge Index (KI)* is an indicator that shows the relative position of the world regarding the ability of each to create and exploit knowledge; more precisely, this indicator is calculated by the World Bank based on three distinct pillars, namely:

a) "education" pillar, given by average years of schooling of citizens, registration in secondary and tertiary education;

b) "innovation" pillar, which is determined mainly by the number of patents issued annually, the number of journals / magazines etc.

c) "ICT" pillar, which is given by the degree of endowment with phones, computers and Internet access for citizens and employees of various organizations.

□ *Knowledge Economy Index (KEI)* reflects a country's ability to create and exploit knowledge for economic growth; This indicator includes KI (education, innovation and ICT- Information and Communication Technology) and, in addition, includes an assessment of government policies aimed to establish the rule of law and the liberalization of economic life for citizens and business organizations (the fourth Pillar will be called the indicator "economic liberalization" - IER).

### 2. The opportunities of the knowledge economy

For now, referring to KEI and KI we believe that it is sufficient to point out that in the global charts there are countries like Sweden, Finland, Denmark, Netherlands, Norway, New Zealand, Canada, etc.; Romania ranks 44 (at the time of 2012) of the total of about 145 countries included in the ranking; other countries with emerging economies are situated on modest positions than Romania (Russia, Brazil, Mexico, Thailand etc.) (<http://web.worldbank.org>). In other words, we notice that certain centers of

economic power that exists and manifests themselves globally (North America, some Asian countries, etc.) have by default a favorable position in the rating given by synthetic indicators such as KEI and KI.

KEI index provides relevant information regarding the challenges and opportunities of the knowledge economy; In other words, governments will be better able, we believe, to devise appropriate macro strategies on education, scientific research and stimulate entrepreneurship [3]. Therefore, identifying the strengths and weaknesses of each country globally, helps to identify economic/policy solutions necessary to implement development programs at national and regional level. On the other hand, it is noted that the relative positioning of a country on the index KEI will be clearly correlated with other indicators / indices established for the major countries of the world (eg global competitiveness index, innovation index,

Education quality indicators etc.). This is natural as we can discuss about a relative positioning of the world for each of the four pillars on which it is calculated the KEI index (economic liberalization, innovation etc.).

To identify the impact of individual items (so-called pillars of the knowledge economy) on which it is based the knowledge economy we will analyze the dynamics of key indexes for the pillars of the knowledge economy.

Therefore the assessment of positions of various countries on the development of the knowledge economy will be based on Table 1. The table contains the top classification of the 10 countries of the world based on score of aggregated index KEI (Knowledge Economy Index) index EIR (The "economic liberalization" index), Education index, Innovation index, and ICT index (Information and Communications Technology).

Table no. 1. KAM 2012 Knowledge indexes – Top 10 economies

Country	Rank	KEI	Rank	IER index	Rank	Innovation index	Rank	Education index	Rank	ICT index
<b>Sweden</b>	1	9,43	4	9,58	2	9,74	6	8,92	2	9,49
<b>Finland</b>	2	9,33	2	9,65	3	9,66	11	8,77	6	9,22
<b>Denmark</b>	3	9,16	3	9,63	5	9,49	15	8,63	13	8,88
<b>Netherlands</b>	4	9,11	19	8,79	7	9,46	12	8,75	5	9,45
<b>Norway</b>	5	9,11	8	9,47	17	9,01	3	9,43	17	8,53
<b>New Zealand</b>	6	8,97	14	9,09	22	8,66	1	9,81	23	8,3
<b>Canada</b>	7	8,92	7	9,52	10	9,32	16	8,61	24	8,23
<b>Germany</b>	8	8,9	13	9,1	12	9,11	23	8,2	8	9,17
<b>Australia</b>	9	8,88	29	8,56	19	8,92	2	9,71	22	8,32
<b>Switzerland</b>	10	8,87	6	9,54	1	9,86	41	6,9	7	9,2

Source: <http://siteresources.worldbank.org/INTUNIKAM/Resources/2012.pdf> p.3

According to the value held by the aggregate index KEI it results that Sweden (Table no. 1) [4] retains leadership (KEI index with a value of 9.43) as the most advanced knowledge economy in the world, and innovation pillar and ICT a pillar rank it second in the world with a value of 9.49, respectively 9.74. This position of innovation pillar is due to increased payments of dividends and receipts, of articles of science and technology and patents; Sweden's competitiveness in the ICT pillar is largely reflected in the increase in Internet users. In this context we note that pillar of education dropped from 3rd in 2000 to 6th in 2012.

This was recorded due to lower gross rate in secondary education from 152% in 2000 to 103% in 2012; the enrollment rate in tertiary education has increased over time, but not as fast as in other countries so that the score fell from 9.72 in 2000 to 8.72 in the most recent period.

The data recorded in Table 1 shows that the Nordic countries are the best performer in terms KEI indicator (occupying the first 5 places in the world rankings); all four KEI pillars (knowledge economy) are well developed and balanced; Sweden, Finland, Denmark and Norway are characterized by their particularly strong performance in the

IER pillar; education index value ranks them among the top 15 countries. Performance over the last 12 years highlight the fact that Finland has recorded an increase of the KEI indicator due to improvement of IER indicator, education index and index of ICT; They recorded the strongest performance in innovation and IER, for which it is found in the top 3 countries. Denmark has shown impressive improvement in IER manifested by its positioning on 3<sup>rd</sup> place in 2012 (from 8th in 2000); ICT pillar lost 10 positions reaching to 13th place in 2012. Norway is characterized by increase of the KEI index - reaching the 5th position as a result of progress in the IER pillar; It is the least

developed country of the Nordic countries in the fields of innovation and the Information Technology and Communications.

A general representation of the top 10 - indices that affect the world's economies - highlights the fact that each member pillar of Knowledge Economy Index has a world ranking of countries based on the value that these measures in those areas. They are therefore recorded performance of the pillars KEI following the development of innovation, raising the level of education, improvements to the Information Technology and Communications and not least of involvement in boosting the economy (Table no. 2).

*Table no. 2 Top 10 economies for each pillar -2012*

<b>Rank</b>	<b>IER</b>	<b>Innovator</b>	<b>Education</b>	<b>ICT</b>
<b>1</b>	Singapore	Switzerland	New Zealand	Bahrain
<b>2</b>	Finland	Sweden	Australia	Sweden
<b>3</b>	Denmark	Finland	Norway	Luxembourg
<b>4</b>	Sweden	Singapore	Korea Republic	Great Britain
<b>5</b>	Hong Kong, China	Denmark	Greece	Netherlands
<b>6</b>	Switzerland	USA	Sweden	Finland
<b>7</b>	Canada	Netherlands	Iceland	Switzerland
<b>8</b>	Norway	Israel	Taiwan, China	Germany
<b>9</b>	Luxembourg	Taiwan, China	Ireland	Taiwan, China
<b>10</b>	Austria	Canada	Spain	Hong Kong, China

Source: <http://siteresources.worldbank.org/INTUNIKAM/Resources/2012.pdf> p.5

Owning certain incentives that can lead to achieving performance in the economies of the world provides the opportunity to identify the contribution and involvement of each indicator. We find, therefore, that for countries such as Singapore, Hong Kong (China) and Canada regulation of tariff and non-tariff barriers places the three countries on the 1st, 5th (Hong Kong won 11 places in the period 2000-2012) and 7th in the IER (The "economic liberalization" indicator). Assessment of countries classified in the second pillar - Innovation - is realized by analyzing the number of articles published in journals of science and technology / 1,000 people, the number of patents granted by the USPTO by increasing fees, etc. The results positioned Switzerland on the first place in terms of Innovation Index while Singapore has progressed which resulted in its positioning on the 4th; Canada ranks 10 (due to the decrease in the number of articles published and granted patents), and Taiwan

ranks 9 in the innovation pillar - a situation due to the large number of patent registration / 1000 people.

The presence of different variables in the knowledge economy highlights position of different countries in the education pillar ranking. Thus, we see that the gross enrollment rate of young people in the secondary sector (133%) and the average of years of schooling (12.7 years) placed New Zealand and Australia on positions 1 and 2, while variable: the gross enrollment rate of young people in the tertiary sector positioned Greece on the 5<sup>th</sup> place in the ranking of Education Index. We note also that Iceland recorded a growth rate of enrollment of young people in the tertiary sector (from 45% to 74%) which led to placing it in 7th place in the standings Education Index. 6th position in the Education Index ranking is occupied by Sweden, the country that registered a decrease in the gross enrollment rate of young people in secondary education (from

152% in 2000 to 103% in 2012) and an increase in average years of tuition and enrollment rates in higher education.

The value of the fourth pillar of KEI component - information and communications technology (ICT) – is given by the variables: the number of telephones (fixed and mobile) / 1000 inhabitants, the number of computers / 1,000 inhabitants and the number of Internet users / 1,000. The result of these assessments is found in the ranking held by ICT index and its contribution to the creation, exchange and processing of information in a knowledge economy. Thus, we see that on the 1<sup>st</sup> place is situated Bahrain in the ICT index ranking (increased from position 40 in 2000 to position 1 in 2012), due to the increasing number of internet users / 1,000 inhabitants (from 60 in 2000 to 820 in 2012), the increase of the number of telephones (fixed and mobile) / 1,000 inhabitants (from 580 in 2000 to 2290 in 2012) and the increase in the number of computers / 1000 people (from 150 in 2000 to 750 in 2012). 4th place is held

by Britain since it experienced rapid growth in the number of internet users / 1,000 inhabitants and an increase in the number of computers / 1,000 people. On 3<sup>rd</sup> is Luxembourg due to fast growth in the number of telephones (fixed and mobile) / 1,000 people and the increasing number of internet users / 1,000 inhabitants, while Germany is ranked 8th in the standings Index ICT due to increased ICT in all three variables. 9 and 10 positions are held by Taiwan and Hong Kong as a result of the increasing number of computers / 1,000.

The analysis presented brings to the forefront the study of the existing situation in the knowledge economy index and the value held by each of the four pillars of KEI index. Indicator assessment identified variables decreases and increases of the four pillars which imposed finding solutions / strategies to improving their values. This can be achieved as a result of recording significant progress in education, innovation, information and communication technology (Table no. 3).

Table no. 3 - Improvements of KEI position – Top 10 countries

Country/ Economies	KEI change of position	KEI 2012 Rank	KEI	IER change of position	IER 2012 Rank	Innovati on change of position	Innovati on	Education change of position	2012 educatio n position	ICT change of position	2012 ICT position
<b>Saudi Arabia</b>	+26	50	5,96	+17	60	0	84	+30	58	+45	21
<b>Oman</b>	+18	47	6,14	- 9	44	+26	57	+15	74	+19	55
<b>Macedonia</b>	+16	57	5,65	+34	59	+10	69	-12	78	+17	48
<b>Azerbaijan</b>	+15	79	4,56	+24	103	+14	89	+8	53	+26	78
<b>Albania</b>	+14	82	4,53	+50	71	+8	101	-16	83	+37	72
<b>Algeria</b>	+14	96	1,79	+23	115	+6	99	+21	71	+21	89
<b>Rwanda</b>	+14	127	1,83	+45	95	+10	134	+2	137	+3	143
<b>Belarus</b>	+11	59	5,59	+21	114	+5	60	-1	33	+20	47
<b>Romania</b>	+9	44	6,82	+20	40	+10	53	+19	29	+5	59
<b>Russian Federation</b>	+9	55	5,78	+15	117	+11	40	-17	44	+19	44

Source: KAM 2012. Reconstructed from the KAM’s “KEI and KI indexes” mode  
www.worldbank.org/kam p.7

The data table no. 3 shows that, most progress are recorded by Saudi Arabia, the country whose KEI index climbed 26 positions to 50th position in 2012 with a value of 5.96. Significant improvements occurred in education pillar (from position 88 in 2000 to position 58 in 2012) due to the increasing value of gross enrollment rates of young people in the secondary sector; increasing the number of fixed and mobile

phones, the number of internet users, the number of computers has led to a substantial strengthening of ICT pillar.

With significant improvements in innovation, education and ICT, Oman is ranked 47 in the KEI ranking (from position 65 in 2000 to position 47 in 2012). Progress in innovation pillar were due to rapid growth in the number of patents registered; increasing the number of phones, the number

of computer and internet users have also led to a climb of 19 places in the ICT pillar (from position 72 in 2000 to position 55 in 2012).

We note that most of the winners are mainly middle-income countries; Azerbaijan climbed 15 places in KEI and 26 places in ICT pillar; Macedonia climbed 16 positions in KEI and 34 positions in the IER; Albania has risen 14 positions in KEI; Belarus jumped 11 places in KEI; Romania and the Russian Federation have made some remarkable changes in 3rd and 4th pillars of the knowledge economy index.

Thus, we can conclude by saying that the relative positioning of the main countries of the world on KEI and on each of the four "pillars" that underlie the calculation of this indicator is somewhat fluctuating from one year to another. Depending on macroeconomic strategies and how companies and individuals react to certain government policies, some countries have managed to improve their relative position on

the KEI and / or some of the four pillars (examples are countries in table no. 3); meanwhile, other countries have experienced a deterioration in their relative positioning on the KEI and / or certain components on education, innovation etc. (In this last category are included countries such as Argentina, South Africa, Jordan, etc.).

In terms of economies / countries that are within the area of "middle" of the league on KEI (from position 55 to position 95, according to table no. 4), we find that in such situations are recorded changes in increase / decrease in the value of some of the pillars that give the contents of this indicator, as appropriate. For example, between such country is Russia, which has improved the ICT pillar positioning (from position 63 in 2000 to position 44 in 2012), but also registered a worsening education pillar due to depreciation of the quality of the country's education system.

*Table no. 4. KEI index: the median ranking; economies with modest incomes per inhabitant*

Country/ Economies	KEI position	KEI indexes	IER position	IER indexes	Innovation position	Innovation indexes	Education position	Education indexes	ICT position	ICT indexes
<b>Brazil</b>	60	5,58	82	4,17	51	6,31	61	5,61	58	6,24
<b>Russia</b>	55	5,78	117	2,23	40	6,93	44	6,79	44	7,16
<b>India</b>	110	3,06	99	3,57	76	4,5	111	2,26	122	1
<b>China</b>	84	4,37	97	3,79	54	5,99	95	3,93	94	3,79
<b>Tunisia</b>	80	4,56	96	3,81	70	4,97	89	4,55	79	4,89
<b>Ukraine</b>	56	5,73	93	3,95	59	5,76	21	8,26	77	4,96

Source: <http://siteresources.worldbank.org/INTUNIKAM/Resources/2012.pdf> p.9

Regarding other countries, such as India, China or Ukraine, that are still in the middle of the ranking KEI, we find that their relative positioning tends to improve over the last decade (e.g., India has improved its position in terms of innovation from 96th place in 2000 to 76 in 2012); however, the overall situation of countries in this category remains fluctuating and dependent on macroeconomic strategies developed by governments, the corporate sector performance and quality of capital in these countries. In other words, we notice that there is some correlation (partial) between socio-economic situation of the main countries of the world, such as China, India or Russia, and the rating based on KEI. For the purposes cited we conclude that in countries where GDP per capita is relatively modest and fluctuating over the years

(roughly between 7000-8000 USD per capita to 10,000-12,000 USD per capita) the situation on the KEI rating is one specific to the middle area of the ranking; in such countries economic liberalization, education and innovation recorded modest positioning compared with developed countries of the world.

### 3. Conclusions

In conclusion we can talk also of a certain partial correlation between the structure of national economies (for countries like India, China, Russia to Western countries) and the position held by such countries in the KEI ranking. More specifically, we can infer that there is some partial correlation between a country's economic structure and its relative

positioning to the KEI indicator, meaning in which we remember the following:

a) Some developed countries of the world (Sweden, Netherlands and other EU countries, USA, Canada, Japan, etc.) have a very good positioning on *the Knowledge Economy Index*.

b) Also, in the purpose of correlation previously raised, worldwide developing (Romania, Russia, Brazil, China, etc.) have a much more modest position of *Knowledge Economy Index*.

#### 4. Acknowledgment

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Resources Development 2007-2013. **Investing in people!**”

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## **Dynamics of Mandatory Private Pension Funds from Romania in May 2008 - March 2015 and from the Perspective of Contributions and Assets**

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### **Abstract**

*Romanian pension system began to confront in the 90s with serious demographic problems. If we add to these those resulting from insufficient funds for payment of pensions, we have provided the framework that led to the introduction in 2007 of private pensions. Basically we can say that it started out a new pension system structured on three pillars, one of state and two private. In this article we propose an analysis of how it has evolved Pillar II of mandatory private pensions in Romania in May 2008 - March 2015, following two main aspects: contributions paid to Pillar II (taking into account the dynamics of total monthly contributions paid, total annual receipts from contributions and dynamics of average monthly contributions per participant to Pillar II) and Pillar II assets (following the evolution of total assets and net assets of Pillar II).*

**Keywords:** mandatory private pension, participants, contributions, Pillar II, total assets.

**JEL:** O1, O2

### **1. Introduction**

In the national pension systems, the role of private pensions tends to become increasingly important. In support of this idea we remember conclusion reached by the consulting firm Watson Wyatt in a research where it is stated that current premiums 300 pension funds in the world were valued at 10 trillion dollars, their

value increasing on average by 11.5% annually. This value becomes extreme impressive asset for many investors, who see so some long-term investment opportunities extremely good in terms of ensuring a degree of caution absolutely necessary if we consider the amounts bandied about.

The pension system in Romania has entered since 1990 in an ongoing process of change, but not always with positive consequences on pension levels. Truly significant reforms that emerged after 2000 and was favored by the country's drive to join the European Union.

The period after 1990 was marked by a series of events which have challenged the Romanian economy; this economic and financial crisis culminating broke out in 2008.

Unlike other countries, in Romania the crisis has affected pension system especially in public component. Private funds have held up relatively well problems occurred due on the one hand extremely cautious investment policy, and secondly because they are still in the early, high values being administered.

### **2. General considerations regarding participants' contributions to mandatory private pension funds**

*Contribution to the pension fund is part of individual social insurance contribution due on the public pension system. This is highlighted distinctly and constitutes transfers and deduces from the gross income of the insured, similarly to the compulsory*



contribution due under Law 19/2000. At the same time the basis for calculation, withholding and payment of contribution are similar to those applicable to contributions to social insurance system [1].

The participant who was seconded to another country is entitled to continued payment of contributions to the pension fund in Romania, throughout the deployment. In the situation of continued contribution payment to a pension fund of an EU Member State or belonging to EEA (European Economic Area), the posted worker in Romania and his employer, where appropriate, will be exempted from contributing to a pension fund in Romania.

At the time of commencement of collection, the amount of contribution was 2% of the base. Within 8 years after collection, the contribution rate would be increased to 6%, with an increase of 0.5 percentage points per year starting on 1st of January each year. But because of the economic crisis of 2008, the government decided to freeze contribution rate for mandatory private pensions to the level of 2% for 2009, annual increases of 0.5% following to be applied from 1st of January 2010. Thus, currently is in effect a share of contribution of 5% from 1st of January 2015.

*The payment of contributions* to pension funds is performed by collecting institution, taking into account the information provided by the contribution payer. If the pension society company has not received pension contributions within the statutory period, it shall immediately notify the National House of Public Pensions (NHPP) [2]. In case of not paying in due time the contribution to the pension fund, there must be paid interest and penalties by the person responsible for delay in the amount equal to the fixed budget for non-payment of budgetary obligations and the collection institution proceeds to applying the methods of enforcement and fighting of receivables, according to the law regarding collection of receivables. Interest and penalties related, go to the participant's individual account and on them management fee is not due.

### 3. Participants' accounts

Each participant in a privately managed mandatory pension fund has an individual

*account* where the contributions and transfers of availabilities together with related accessories are transferred [3]. *The participant is the owner of the personal asset in his account*, which cannot be subject to enforcement action or transaction, subject to cancellation acts. Also, under the same penalty, *it cannot be assigned or pledged*.

*Cash contributions and transfer money to a pension fund are converted into fund units within two business days from the date of their receipt.*

*The personal asset* of each participant is the sum accruing to it, equal to the number of units held by the participant multiplied by the daily value of a fund unit.

*The net asset value and the value of the fund unit of a pension fund is calculated by both the pension society and by the depositary every working day and it is notified to the Private Pension System Supervisory Commission (PPSSC) in the same day* [4]. If there are differences between their calculations, the correct values are agreed by the pension institution and depositary under the regulations of PPSSC.

The net asset value and the value of the fund unit of a private pension fund are subject to annual audit by a financial auditor (member of the Chamber of Auditors of Romania or established in a Member State of the EU or EEA belonging to professional activities in Romania in the context of the provision of services) approved by the PPSSC, which may not be a person affiliated to the pension company or the depositary.

The pension society which received pension contributions for at least 24 months calculates on the last business day of each quarter, *the rate of return on the pension fund for the last 24 months*, and communicates it in the same day to PPSSC. Average weighted rate of return of all funds are calculated and published quarterly by PPSSC.

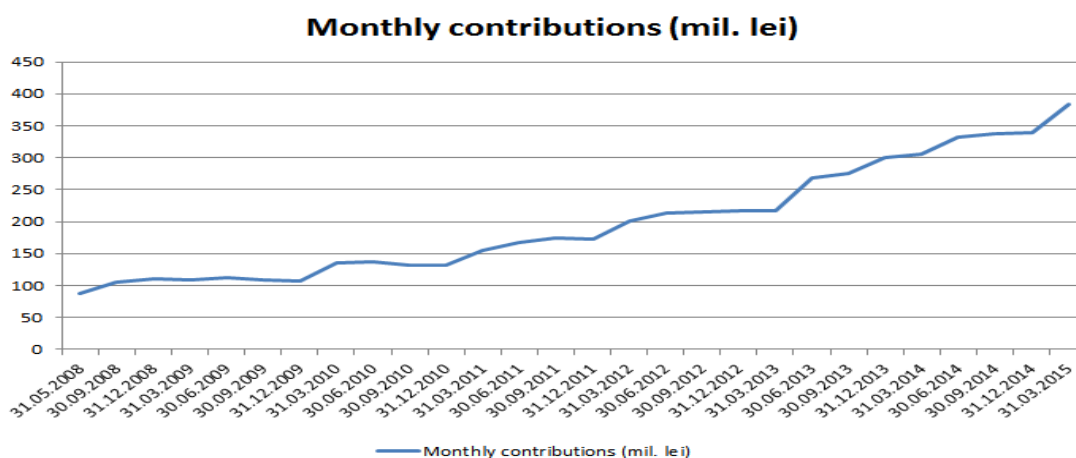
PPSSC warns quarterly the pension company if the rate of return on pension fund is less than the minimum rate of return of all pension funds.

### 4. The evolution of contributions paid to Pillar II

In 2008, the first contributions were paid into the system since May, with the

declaration of social insurance contributions due for the reference month March 2008.

Figure no. 1 Evolution of the total monthly contributions paid to Pillar II (million lei)



Data source: www.csspp.ro

In the process of collecting contributions, National House of Public Pensions (NHPP) transfers the amounts related to the contributions of participants in pension fund accounts opened at banks storage, based on monthly returns submitted by employers [2], the National Agency for Fiscal Administration (NAFA) follows employers to pay contributions [5] and the Private Pension System Supervisory Commission (PPSSC) oversee the fulfillment of obligations of all operators involved in the system to protect the interests of participants [5].

In Figure 1 we plotted the evolution of **total monthly contributions** paid to Pillar II in May 2008 - March 2015.

Overall, total monthly contribution followed an upward trend, increasing in the analyzed period by 335.67% from 88.19 million lei in 2008 to 384,220,000 lei in March 2015. The largest relative quarterly

growth was in the first quarter of 2010, 26.25%, from 107.15 million lei to 135.28 million lei.

There were only six *quarters* in which the total contribution decreased: in the first quarter of 2009, the third quarter of 2009, in the fourth quarter of 2009, the third quarter of 2010 from 137.77 million lei to 131.83 million lei (-4.31%), when we recorded the largest decrease, in the fourth quarter of 2011 and first quarter of 2013.

*Annually* there have been increases in total monthly contributions, the most important being of 82,220,000 lei, representing 37.82% and was recorded in 2011 from 132.39 million lei to 173.53 million lei. The only year when the monthly contributions dropped was 2009, with a decrease of -3.15%, from 110.64 million lei to 107.15 million lei.

*Total annual receipts* of contributions to the Pillar II are given in Table 1.

Table no. 1 Total annual receipts from contributions and the annual average of monthly earnings at Pillar II (million lei)

	2008	2009	2010	2011	2012	2013	2014
<b>Total annual receipts</b>	822	1.324,9	1.564	1.976,2	2.501,3	3.125,2	3.877,2
<b>Annual average of monthly earnings</b>	102,7	110,4	130,3	164,7	208,4	260,4	323,1

Data source: INSSE – *Anuare statistice pe anii 1990-2014*

It is noted that from year to year there were paid more contributions to Pillar II,

which is explained both by increasing the number of taxpayers and by the annual

increase by 0.5% of contribution share from 2% in 2009. The total annual revenues of pension funds increased the most with 61.18% in 2009 compared to 2008 (from 822 million lei to 1324.9 million lei) [6].

Annual average of monthly revenue followed the same upward trend, with the largest relative increase, of 26.53% (from 164.7 million lei to 208.4 million lei), recorded in 2012 compared to 2011.

We should mention that during the entire period it was recorded an average of total monthly revenue to Pillar II of 199.01 million lei.

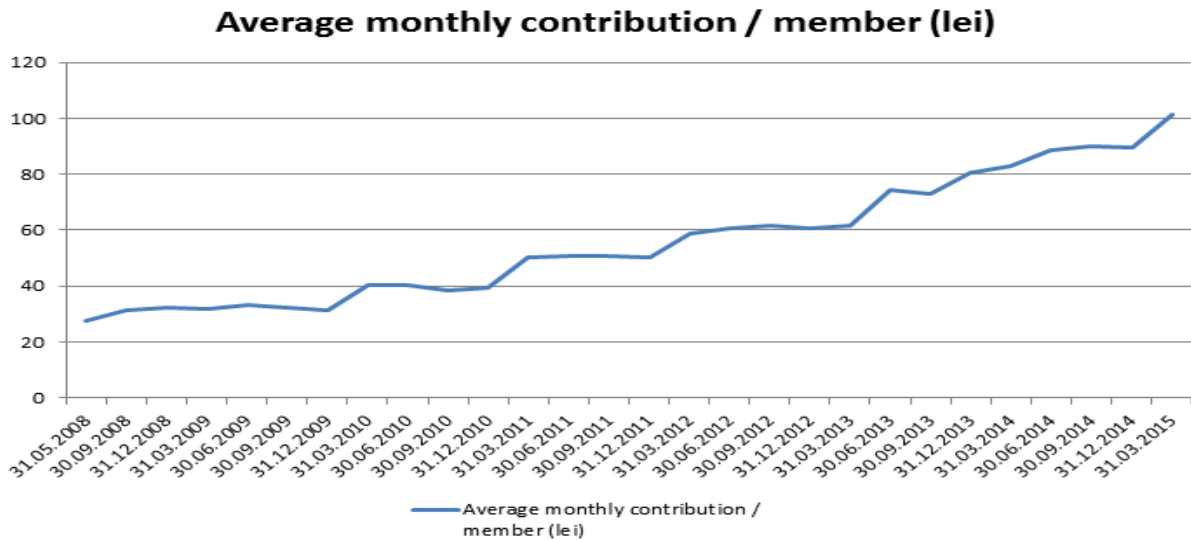
A similar evolution to that of the total monthly contribution shown in Figure 2 is the one of **the average monthly contribution per participant**. Thus, between 31 May 2008 and 31 March 2015 monthly contribution per participant increased by 73.6 lei / participant and

266.67%, from 27.6 lei / participant to 101.2 lei / participant.

There were nine quarters in which the total contribution declined. In the third quarter of 2010 we recorded the highest quarterly decrease of -2.07 lei / participant, from 40.55 lei / participant to 38.48 lei / participant (-5.1%). In most quarters the average monthly contribution per participant increased with a relative maximum increase of 27.6% in the first quarter of 2010, from 31.59 lei / participant to 40.31 lei / participant.

The annual evolution of average monthly contribution followed the evolution of total monthly contribution, with a year of decline, 2009 when it fell by -1.89% from 32.2 lei / participant to 31.59 lei / participant in the others three years recording increases. The maximum annual increase was also in 2013, namely 32.47%, from 60.85 lei / participant to 80.61 lei / participant.

Figure no. 2 Evolution of the average monthly contributions per participant to Pillar II (lei)



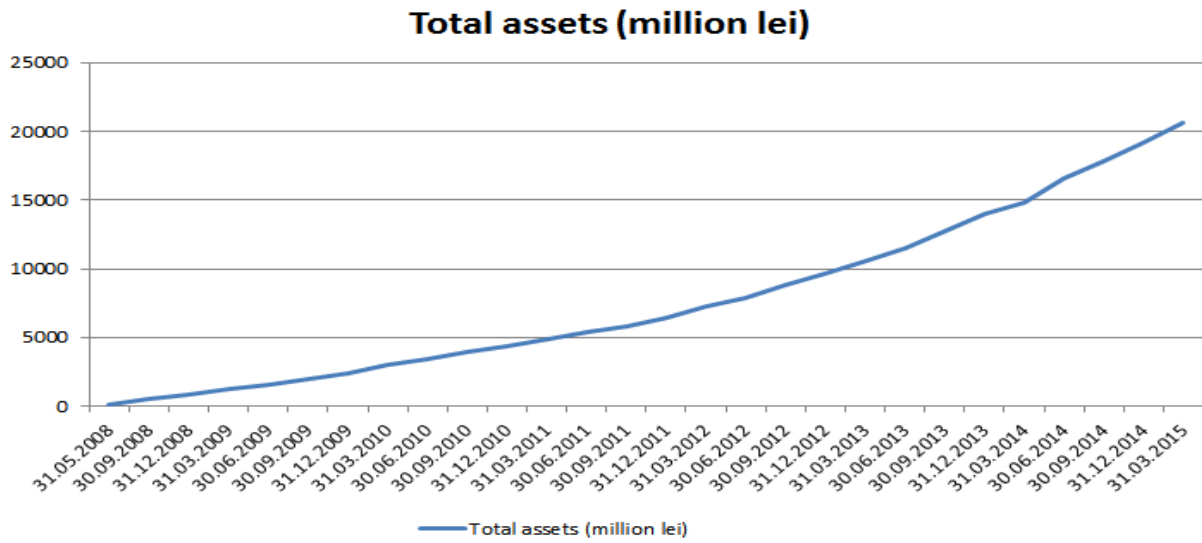
Data source: www.csspp.ro

It is obvious that Pillar II receipts will increase in the future, if it will be maintained the same trend of evolution of the number of participants and given that each year the share of contributions transferred to the private sector will increase by 0.5% per year, until it reaches 6% [6].

## 5. The evolution of Pillar II assets

In Figure 3 and Figure 4 are presented the evolutions of the value of total assets and the value of the assets per whole Pillar II, from the beginning of the period of collecting contributions in May 2008 until March 2015.

Figure no. 3 The evolution of the value of total assets of Pillar II (million lei)

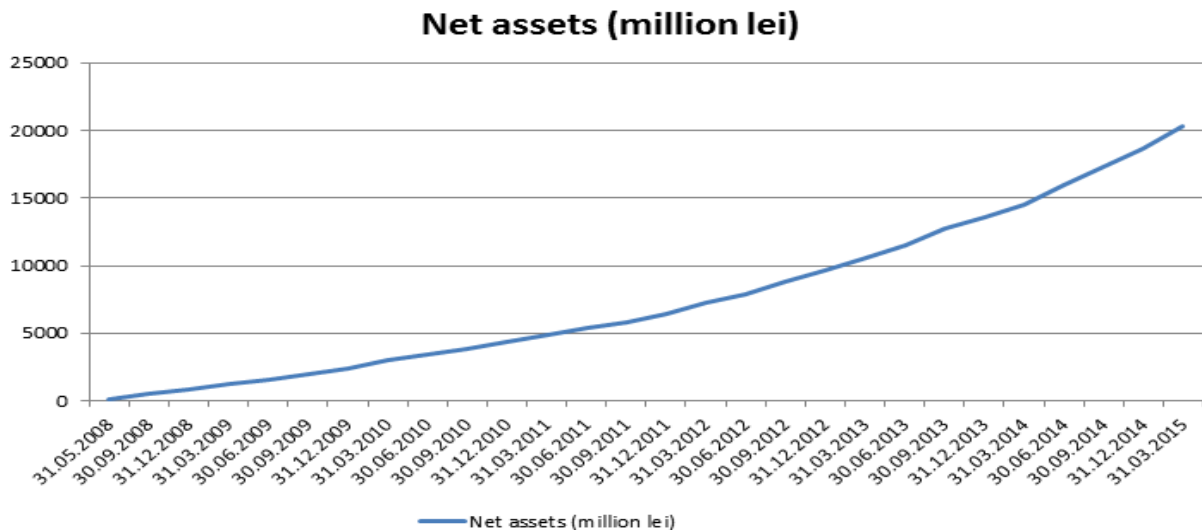


Data source: www.csspp.ro

The constant increase in the value of total assets and of the net ones was determined, especially in the early years, by the increase in the number of participants, namely the total transfers. The results of their investment influenced to a small extent the evolution of net assets. [6]

First, there can be observed *extremely small differences* between the value of total assets and net assets, so that we will refer only to the evolution of the net asset value [1]. These differences represent *fees* incurred by pension funds, their level being provided in the prospectus established by the pension administrator.

Figure no. 4 The evolution of net asset value at Pillar II (million lei)



Data source: www.csspp.ro

Net assets had, especially at the beginning, a steep rise from 31 May 2008 - March 31, 2015, increasing the total to more than 235 times from 86.45 million lei to 20,323.12 million lei.

Obviously the highest relative annual growth occurred in 2008, of 862.29% from 86.45 million lei to 831.9 million lei, after which growth slowed from year to year until 2014, when there was a relative increase of

37.96% from 13,557.55 million to 18,704.32 million lei.

If we consider the quarterly increases, the quarter with the largest relative increase was of course the third quarter of 2008, with an increase of 166.31% (from 187.12 million lei to 498.31 million lei). The smallest quarterly increase of just 6.27% was recorded in the fourth quarter of 2013 (from 12758.1 million lei to 13,557.55 million).

The structure of investment portfolios and their diversification, which reflects risk diversification, plays an important role in ensuring income adequacy of private pensions.

*The international financial crisis* that began to manifest mainly in the second half of 2008, influenced to a certain extent the private pensions in Romania, but not in the proportion of other countries with more developed private pension systems (in Romania pension funds were only in the early months of operation) [7]. Moreover, the private pension system in Romania focuses on the *safety of the participants*, and the most important security features of the system derive from the protection that the law gives the participant. Through the organization of the system by separating pension fund assets from those of administrators, participants' contributions are put to shelter from the difficulties that, private pension fund managers or their shareholders can encounter.

## 6. Conclusions

Overall, the total monthly contribution to Pillar II pension funds had an upward trend, increasing in the period analyzed by 335.67% from 88.19 million lei in 2008 to 384,220,000 lei in March 2015.

*Annually*, there have been increases in total monthly contributions, the most important being of 82,220,000 lei, representing 37.82% and was recorded in 2011 from 132.39 million lei to 173.53 million lei.

The same upward trend was followed by total annual revenues of Pillar II, which is explained both by increasing the number of taxpayers and by the annual increase by 0.5% in the contribution rate starting from 2% in 2009. Annual total receipts of pension funds increased the most with 61.18% in 2009

compared to 2008 (from 822 million lei to 1324.9 million lei).

The annual average of monthly revenue followed the same upward trend, with the largest relative increase, of 26.53% (from 164.7 million lei to 208.4 million lei), recorded in 2012 compared to 2011.

*The average monthly contribution per participant* rose between 31 May 2008 and 31 March 2015 with 73.6 lei / participant and 266.67%, from 27.6 lei / participant to 101.2 lei / participant. The maximum annual growth was in 2013, namely 32.47%, from 60.85 lei / participant to 80.61 lei / participant.

It is expected that the proceeds from Pillar II to grow in the future, if it will be maintained the same trend of evolution of the number of participants and given that each year the share of contributions transferred to the private sector will increase by 0.5% per year until it reaches 6%.

The constant increase in the value of total assets and of the net ones was determined, especially in the early years, by the increase in the number of participants, namely the total transfers. The results of their investment influenced to a small extent the evolution of net assets.

They were recorded *extremely small differences* between the value of total assets and net assets. These differences represent *fees* incurred by pension funds, their level being provided in the prospectus established by the pension administrator.

The highest relative annual growth in net asset value was produced in 2008, of 862.29% from 86.45 million lei to 831.9 million lei, after which growth slowed from year to year until 2014 when there was a relative increase of 37.96% from 13,557.55 million to 18,704.32 million lei.

These positive developments of the indicators analyzed indicate that pension funds had a successful start in Romania. We reach the same conclusion if we take into account the number of participants in Pillar II system, which reached *4,156,316 people*, after completing the random distribution process (for people who have not joined a private pension fund, although they had this obligation, or who signed the acts of accession for more funds), reaching in 31 March 2015 the figure of *6,374,770 people*. Approximately 34% of the 4.16 million

participants who joined the private pension funds (Pillar II) were between 35 and 45 years, meaning that they have entered the system without being obliged by law. This element and the total number of acts of accession which has exceeded all initial expectations support the initial success of the accession process to Pillar II.

Postponed for more than ten years, private pension funds represent a financial instrument of savings with tradition in mature markets, but with no history in Romania. According to estimates at the time of interested companies, private pension will become the business of the future decade, a market that quickly reached one billion euros in the first three years and will reach ten billion in the first ten years.

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## ActiveX Controls in Microsoft Excel

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### Abstract

**ActiveX** controls can be placed in **Word** documents, **Excel** spreadsheets or **PowerPoint** slides. These controls are selected from the **Toolbox** and they allow user interaction. A control has adjustable attributes (properties) and it detects events (it is “**alive**”). Controls are associated with code sequences, in the form of certain procedures, called **event procedures**.

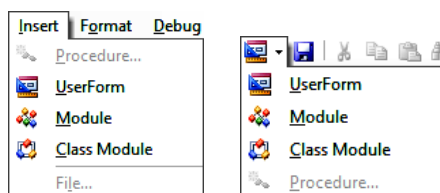
**Key words:** macro, event, control, module.  
**J.E.L. classification:** C88.

### 1. Introduction

**Microsoft Excel** is a spreadsheet application that allows the user to employ advanced calculation means. **Microsoft Visual Basic for Applications (VBA)** is used to improve its default calculation functions. When **Microsoft Excel** is being configured, **VBA** is automatically getting installed, too. This allows you to write code through which spreadsheets actions can be automatically effectuated. Therefore, to employ **VBA**, you must launch the **Excel** editing environment and, if you want to write code, you must open *Microsoft Visual Basic*[1].


### 2. User Functions

If the user wants to employ functions that are not defined in **Excel**, he could define them as modules (**Function procedures**). They can be inserted in the **VBA** editor, using the menu or the **Toolbar** [2]:




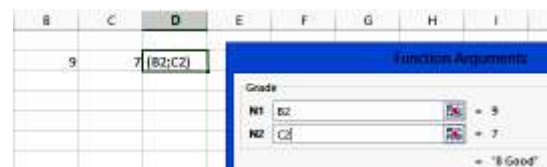
### Example [5]

One will create a calculation function (the average of two grades), which also displays the grades.

1. Activate **VBA**.
2. Edit **Function** procedure (the menu editor: **Insert**  **Module**):

```
Function Grade(n1 As Single,n2 As Single)
Average=(n1+n2)/2
Select Case Average
Case Is <5
Grade=Average & "Fail"
Case Is <=7
Grade=Average & "Close Fail"
Case Is <=8
Grade=Average & "Good"
Case Is <10
Grade=Average & "Very Good"
Case 10
Grade=Average & "Excellent"
Case Else
Grade=Average & "Error"
End Select
End Function
```

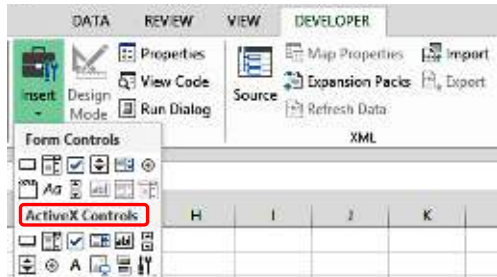
3. Since the function will show up in the list of features, check and see if you can find the newly defined function in the list of **Excel** functions -  button.
4. Enter two grades and calculate their average, employing the **Grade** function (the writing can also be textual):



5. Determine some other averages and grades by copying the **D2** cell:

	A	B	C	D	E
1					
2		9	7	8 Good	
3		10	5	7,5 Good	
4		6	7	6,5 Close Fail	

### 3. ActiveX Controls



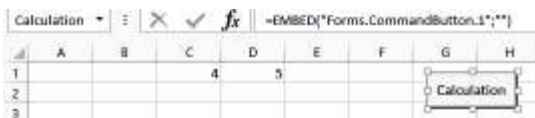
One can add **ActiveX** controls to spreadsheets, next to the data it controls, so that the act of operating them can be effectuated in a way that's as smooth and explicit as possible. The controls are placed on electronic calculation sheets. Inserting or displaying certain values should be made in cells[4].

The reference, within the **Basic** instructions, on data cells can be achieved by means of the following construction:

**Range("cell name")**

Example 1 [5]

1. Insert the two values (in **C1** and **D1**) and, from the **DEVELOPER** tab, **ActiveX** control, **CommandButton** :



<b>Control</b>	<b>Properties</b>
<b>CommandButton</b>	(Name): Calculation Caption: Calculation

Event Procedure (**Click**):

```
Private Sub Calculation_Click()
Range("E1")=Range("C1")*Range("D1")
End Sub
```

2. Switching to *Run Mode* and *click* the button:

	A	B	C	D	E	F	G	H
1			4	5	20			
2							Calculation	
3								

Example 2 [5]

One will edit a Graphical interface, in order to perform financial calculations (**FV**, **PV**, **Pmt** functions) [3].

One will enter input data in cell **B1** (Percentage Format, Decimal Places: 2), **B2**, **B3** and the result will be displayed in cell **B6** (Currency Format):

	A	B
1	<b>Annual interest rate:</b>	
2	<b>Number of months:</b>	
3	<b>Sum:</b>	
4	<input checked="" type="radio"/> <b>FV</b> <input type="radio"/> <b>PV</b> <input type="radio"/> <b>Pmt</b>	
5		
6	<b>Result:</b>	

<b>Controls</b>	<b>Properties</b>
<b>OptionButton</b>	(Name): FvCalculation Caption: FV
<b>OptionButton</b>	(Name): PvCalculation Caption: PV
<b>OptionButton</b>	(Name): PmtCalculation Caption: Pmt

Event Procedures (**Click**):

```
Private Sub CalculFV_Click()
Range("B6")=FV(Range("B1")/12,_
Range("B2"),Range("B3"))
End Sub
Private Sub CalculPV_Click()
Range("B6")=PV(Range("B1")/12,_
Range("B2"),Range("B3"))
End Sub
Private Sub CalculPmt_Click()
Range("B6")=Pmt(Range("B1")/12,_
Range("B2"),Range("B3"))
End Sub
```

Check:

**FV** Of an investment of **100 lei** per month over **13** months with an interest rate of **10%** per year is **1367,03 lei**:



	A	B
1	Annual interest rate:	10,00%
2	Number of months:	13
3	Sum:	-100
4	<input type="radio"/> FV <input checked="" type="radio"/> PV <input type="radio"/> Pmt	
5		
6	Result:	1.367,03 lei

**PV** Of an annuity with an interest rate **9,5%** per year and payments of **150 lei** per month over **12 years** is **-12,860.38 lei**:

	A	B
1	Annual interest rate:	9,50%
2	Number of months:	144
3	Sum:	150
4	<input type="radio"/> FV <input checked="" type="radio"/> PV <input type="radio"/> Pmt	
5		
6	Result:	-12.860,38 lei

**Pmt** On a **13.000 lei** loan at an annual interest rate of **9,5%** are **-151,63 lei**. The loan is paid off in **12 years**:

	A	B
1	Annual interest rate:	9,50%
2	Number of months:	144
3	Sum:	13000
4	<input type="radio"/> FV <input type="radio"/> PV <input checked="" type="radio"/> Pmt	
5		
6	Result:	-151,63 lei

### Example 3 [5]

"Shopping cart" using **ListBox** Control.

Enter values (in cells) and **ActiveX** controls:

	A	B	C
1	Product	Price	
2	Camera	1188	Add
3	Laptop	1978	Add
4	GSM Phone	428	Add
5			
6	Shoping Cart		
7		Empty	Amount
8			
9			
10			0

Controls

| Properties

CommandButton	(Name): Add1 Caption: Add
CommandButton	(Name): Add2 Caption: Add
CommandButton	(Name): Add3 Caption: Add
CommandButton	(Name): Emp Caption: Empty
ListBox	(Name): Cart

Event Procedures (**Click**):

```
PrivateSub Add1_Click()
    Cart.AddItem (Range("B2") & Range("A2"))
    Range("C9")=Range("C9")+ Range("B2")
EndSub

PrivateSub Add2_Click()
    Cart.AddItem (Range("B3") & Range("A3"))
    Range("C9")=Range("C9")+ Range("B3")
EndSub

PrivateSub Add3_Click()
    Cart.AddItem (Range("B4") & Range("A4"))
    Range("C9")=Range("C9")+ Range("B4")
EndSub

PrivateSub Emp_Click()
    Range("C9")=0
    Cart.Clear
EndSub
```


By pressing the **Add** button in **Listbox**, one will add the appropriate price and product name (**Cart.AddItem**) and gather the price calculation of the total cell, C9 - **Range("C9")**:

	A	B	C
1	Product	Price	
2	Camera	1188	Add
3	Laptop	1978	Add
4	GSM Phone	428	Add
5			
6	Shoping Cart		
7		Empty	Amount
8			
9			
10			4782

A product can be introduced into the cart several times.

Using the **Empty** button, the list's content can be deleted (**Cart.Clear**) and, so, the total is equal to zero - **Range("C9") = 0**.

You can delete an item from the list (for instance, **Camera**, which appears twice), using the **RemoveItem** function.

☞ One will introduce another  button:

6	Shoping Cart			
7			Empty	Amount
8	1188Camera			
9	1978Laptop		Delete	
10	1188Camera			4782
	428GSM Phone			

Event Procedures (**Click**):

```
Private Sub Del_Click()
    If Cart.ListCount >= 1 Then
        If Cart.ListIndex <> -1 Then
            Range("C9") = Range("C9") - Val(Cart.Text)
            Cart.RemoveItem(Cart.ListIndex)
            Cart.ListIndex = -1
        End If
    End If
End Sub
```

6	Shoping Cart			
7			Empty	Amount
8	1188Camera			
9	1978Laptop		Delete	
10	1188Camera			4782
	428GSM Phone			

6	Shoping Cart			
7			Empty	Amount
8	1188Camera			
9	1978Laptop		Delete	
10	428GSM Phone			3594

☞ The items in the list can be registered by using **ListCount**.

☞ The **ListIndex** property determines the selected item (**ListIndex = -1** represents the end of the list).

#### 4. Conclusions

There are several types of forms that you can create in Excel: data forms, worksheets that contain Form and ActiveX controls, and VBA UserForms. You can use each type of form by itself, or you can combine them in different ways to create a solution that's right for you.

#### 5. References

- [1] MSDN, Working with Macros and Expressions in Excel 2010
- [2] MSDN, Excel 2013
- [3] Chip Kompakt, Office 2013, Chip Publisher, 2013
- [4] Microsoft, Excel Blog
- [5] Cosma E., Programare VBA (Office 2013), <http://stec.univ-ovidius.ro/studenti/cursuri>

## Form Controls in Microsoft Excel

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### Abstract

*Form Controls are used to employ the data from cells without necessarily using VBA code.*

*One can also run the macros associated with controls. Therefore, one can attach an existent **macro** to a control, one can write or register a new **macro**, and then, when a user clicks the control, the **macro** starts running.*

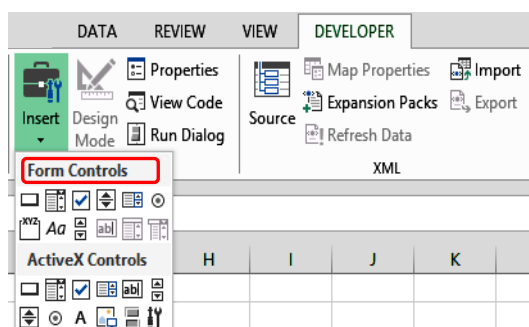
**Key words:** macro, event, control, form.  
**J.E.L. classification:** C88.

### 1. Introduction

Microsoft Excel is a spreadsheet application that allows the user to employ advanced calculation means. ActiveX Controls or **Form Controls** are used to improve its default calculation functions.

### 2. Form Controls

One can add **Form controls** to spreadsheets, next to the data they control, so that the act of operating them can be effectuated in a way that's as smooth and explicit as possible. The controls are placed on electronic calculation sheets. Inserting or displaying certain values should be made in cells. **Form controls** are employed in order to use data from cells without using **VBA** code [1].

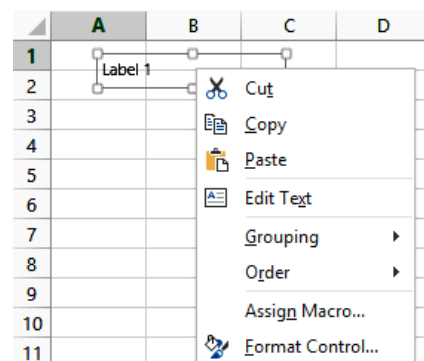


### 2.1 Label

The **Label** Control displays descriptive texts (titles, short explanations and so on). This control is also useful when it comes to describing other controls, like **ListBox**, **Scrollbar**, **SpinButton** and so on.

Example [2]

1. Insert a label and *right-click* on it, in order to edit the text (**Edit Text** option):



	A	B
1		
2		You Economist?

2. *Right-click* on the label in order to choose the **Assign Macro** option. In the **Assign Macro** window, click on the **New** button in order to write the instructions which will be effectuated when one manages the event (you can also name the macro):

```
Sub Label1_Click()  
Range("D2")="Yes"  
EndSub
```

3. Go back to the spreadsheet and *click* the label:

	A	B	C	D
1	You Economist?			
2				Yes

## 2.2 Button

The **Button** control is inserted with the purpose of running a macro and the managed event is a **Click** event. The text that's displayed on the button can be edited (*right-click* the control to choose the **Edit Text** option).

*Example [4]*

1. In cell **A1**, enter the value **100** and two buttons with the following texts- **Calculate** and **Delete** (**Form Control** buttons):

	A	B	C
1	100		Calculate
2			Delete
3			

2. Associate code sequences to those two buttons (**Assign Macro**):

```
Sub Button1_Click()
Range("B1")=Range("A1")*0.24
EndSub

Sub Button2_Click()
Range("B1")=""
EndSub
```

3. Employ those two buttons:

	A	B	C
1	100	24	Calculate
2			Delete
3			

	A	B	C
1	100		Calculate
2			Delete
3			

## 2.3 ListBox

The **ListBox** control displays a list of one or more text items, which can be chosen by the user. The default setting of the control is **Single**, allowing only one choice. A **Multi** list (multiple) only allows one choice or

adjacent choices. An **Extend** box (an extended list) allows one choice, adjacent choices and non-contiguous choices.)

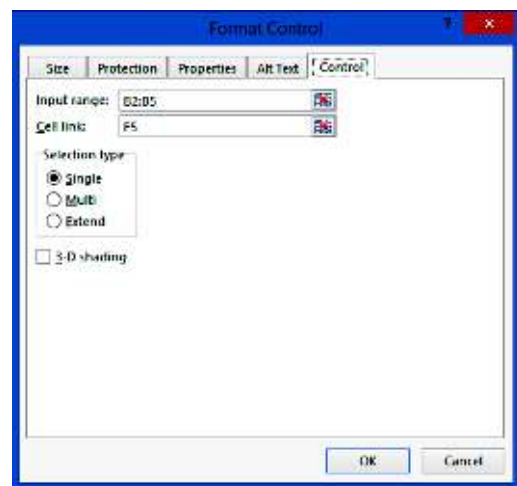
If the items are too many to be displayed, a **scroll bar** is automatically added to the **ListBox**.

*Example [4]*

1. Insert the values in the **B2, B3, B4, B5, D5** cells and a **ListBox** control:

	A	B	C	D	E
1					
2		Chocolate			
3		Strawberry			
4		Vanilla			
5		Mint		You've selected:	

2. *Right-click* the control in order to choose the **Format Control** option. In the **Format Control** window, fill up the **Input Range** box with the purpose of managing the list of cells (**B2:B5**). Fill up the **Cell Link** box with the address of the cell (**F5**), in which the label of the element from the list will be displayed:

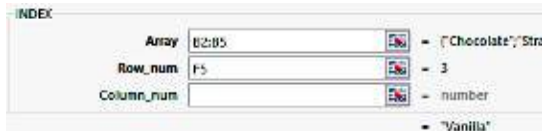
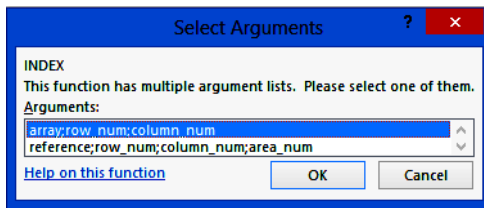


3. *Click* on the **OK** button and select an element from the list:

	A	B	C	D	E	F
1						
2		Chocolate				
3		Strawberry				
4		Vanilla				
5		Mint		You've selected:		3

4. Fill up the **G5** cell with the arguments of the **INDEX** function (from the **Lookup&Reference** group), in order


to display the selected item:

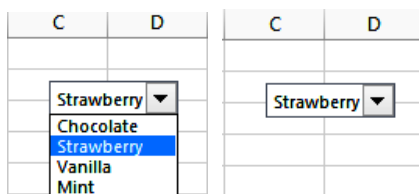


5. Choose an item from the list:



## 2.4 **ComboBox**

The **ComboBox** Control (a drop-down list) allows the data hold of a list of items almost as **Listbox** lists do, but the surface that is occupied on the sheet only consists of one line. A combo box is more compact than a list box, but it is necessary that the user clicks on the  button, so that the list of items will be displayed. When one selects an item, the box opens, displaying the manageable items and, after selecting one of them, it goes back to its initial form.)



## 2.5 **GroupBox**

The **GroupBox** control has the purpose of grouping two or more controls (usually, **CheckBox** or **OptionButton**), in order to make a set of items.

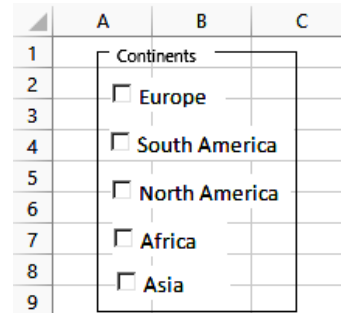
## 2.6 **CheckBox**

The **CheckBox** control (validation box) activates or deactivates an option. One can insert more **CheckBox** boxes on a

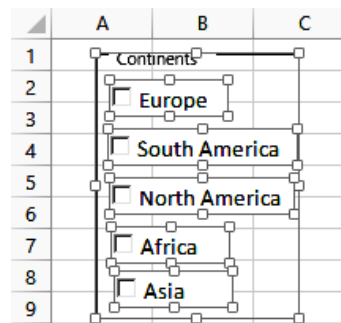
spreadsheet or in a **GroupBox**. The practical utilization can be effectuated by clicking on it (check- uncheck).

*Example [4]*

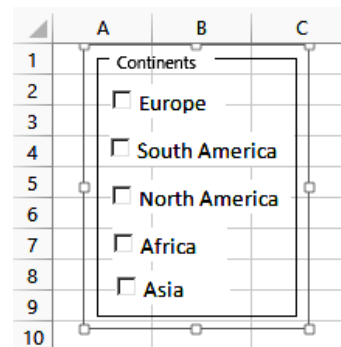
1. Insert a **GroupBox** control and, inside it, five **CheckBox** controls:



2. Select all the inserted controls (**CTRL+click**):



3. *Right-click* on the selected area in order to choose, from the menu that shows up, the **Group** option:



4. Check some boxes:

	A	B	C
1	Continents		
2	<input checked="" type="checkbox"/> Europe		
3	<input type="checkbox"/> South America		
4	<input checked="" type="checkbox"/> North America		
5	<input type="checkbox"/> Africa		
6	<input type="checkbox"/> Asia		
7			
8			
9			

## 2.7 OptionButton

It allows you to choose from a limited set of options which mutually exclude one another. These buttons are usually gathered in a **GroupBox**.

Example [4]

1. Insert a **GroupBox** control and, inside it, two **OptionButton** controls:

	A	B
1	Payment	
2	<input type="radio"/> Card	
3		
4	<input type="radio"/> Cash	
5		

2. Select all the inserted controls (**CTRL+click**):

	A	B
1	Payment	
2	<input type="radio"/> Card	
3		
4	<input type="radio"/> Cash	
5		

3. **Right-click** on the selected area in order to choose, from the menu that shows up, the **Group** option:)

	A	B
1	Payment	
2	<input type="radio"/> Card	
3		
4	<input type="radio"/> Cash	
5		

4. You can only select one option:

	A	B
1	Payment	
2	<input type="radio"/> Card	
3		
4	<input checked="" type="radio"/> Cash	
5		

## 2.8 ScrollBar

It scrolls through a range of values when you *click* the scroll arrows or drag the scroll box. In addition, you can move through a page (a preset interval) of values by clicking the area between the scroll box and either of the scroll arrows. A user can also type a text value directly into an associated cell or text box.

Example [4]

1. Insert a **ScrollBar**:

	A	B	C	D
1		Rate		%
2		< █ >		

2. **Right-click** on the control, choosing **Format Control**. In the **Control** sheet, fill up the **Cell Link** box with the name of the assigned cell (**C1**). One can establish the current value, the interval of values, incremental step:

Size	Protection	Properties	Alt Text	Control
<b>Current value:</b>		<input type="text" value="0"/>		
<b>Minimum value:</b>		<input type="text" value="0"/>		
<b>Maximum value:</b>		<input type="text" value="100"/>		
<b>Incremental change:</b>		<input type="text" value="1"/>		
<b>Page change:</b>		<input type="text" value="10"/>		
<b>Cell link:</b>		<input type="text" value="C1"/>		
<input checked="" type="checkbox"/> 3-D shading				

3. Choose a value for the rate:

	A	B	C	D
1		Rate	11	%
2		< █ >		

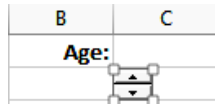
## 2.9 SpinButton

The **SpinButton** control allows to increase or decrease a value, such as a number increment, time, or date. To increase the value, click the up arrow, to decrease the

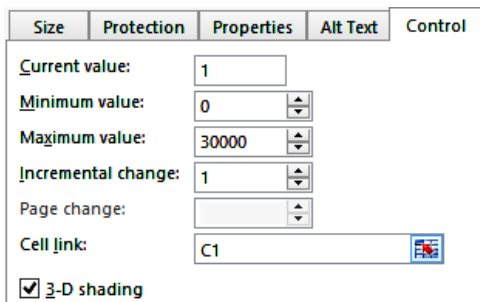
value, click the down arrow. A user can also type a text value directly into an associated cell or text box.)

*Example* [4]

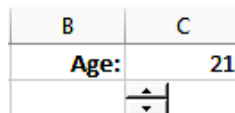
1. Insert a **SpinButton**:



2. *Right-click* on the control, choosing **Format Control**. In the Control sheet, fill up the **CellLink** box with the name of the assigned cell. One can establish the current value, the interval of values, incremental step:



3. Set a value (arrow buttons):



### 3. Conclusions

We can create great forms with little or no need for Microsoft Visual Basic for Applications (VBA) code in Microsoft Office Excel. By using forms and the many controls and objects that you can add to them, you can significantly enhance data entry on your worksheets and improve the way your worksheets are displayed.

### 4. References

- [1] MSDN, Working with Macros and Expressions in Excel 2010
- [2] MSDN, Excel 2013
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- [4] Cosma E., Programare VBA (Office 2013), <http://stec.univ-ovidius.ro/studenti/cursuri>

## A Journey into the History of Migration

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### Abstract:

*The factors that influence the migration phenomenon are numerous and have an increased complexity.*

*The extent of this phenomenon can be easily noticed in an era of speed and technology in which the social, economic and cultural transformations have a great impact on individuals' reactions.*

*The changes of the business environment, accompanied by the changes that occur in all areas affecting the life of the individual have been studied over time by authors that wished to understand them as singular phenomena and to notice their effects on some other phenomena as well.*

*Migration as a phenomenon with multiple causes is one of the topics far from being exhausted easily.*

**Key words:** migration flow, globalization, labor division, labor market.

**J.E.L Classification:** B12; F22; J24.

### 1. Introduction

In this paper we intend to present a brief genesis of migration phenomenon from Antiquity and the Middle Ages.

We, also, underlined the impact of Thomas Robert Malthus' Theory regarding the population and the workforce concept in Adam Smith, David Ricardo and Karl Marx' opinion.

The theories presented in this paper cannot be mutually exclusive; they rather form a complex whole that provides plausible explanations about the contemporary migration that spreads on a global scale.

Migration involves a series of social, economic and political factors, which makes it a topic for various subject, such as

economics, legal studies, sociology as psychology.

The causes and factors that determine the external migration highlight a multitude of new issues in order to address this phenomenon on a economic and a social scale.

Migration is considered a global phenomenon that affects both the involved countries (countries of origin and destination) and the actors - immigrants from everywhere.

Throughout time, they have been several factors that have contributed to the development of the society we live and work in. Migration is one of them.

From physical and intellectual labor to commercial and cultural activities, from natural to manmade factors, it is easy to conclude that the number of elements that contributed to reaching the current social reality is difficult to be determined. Most often, migration is seen as a more or less organized movement of a group of people, moving within a certain country.

### 2. The beginning of the migrations phenomenon.

Determining the number of people living in a certain territory has been, ever since the Antiquity an important issue for the Greek Philosophers, since it brought up several demographic, moral, socio-economic issues. [1]

Ever since Antiquity, the notion of migration revolved around the increase in population number: „and, if by a tragic incident, the country was faces with an epidemics, or war, we would be faces with a much lower number of citizens, therefore we would have to fill this void with foreign immigrants, with mixed education”[2]



The international migration existed in all ages, being a result of a set of complex objective and subjective factors which have a direct impact on the globalization process.

Commerce, migration as well as the mixing and growth of populations, not only opened the eyes of people but also unlocked their tongues. It's not only about the fact that the traders, while travelling, came to learn foreign languages, but also about the fact that this new knowledge made them think about the meaning of words, and, as a consequence, develop new opinions about the most basic issues of life. [3]

Closely connected to the development of trade between countries, in time, people moved between different regions of the same country and between the main countries of the Middle Ages Europe.

A significant grow in population allows continuation of the manufacturing industry, commerce and export. An increase in population leads to an increase of commerce. The traders' philosophy believes that emigration is nor beneficial for economic growth, because a decrease in labor force determined an increase in its cost, therefore and increase in salaries and in the prices of the manufactured products.[4]

For Adam Smith, the labor is not as it had been believed for a long time, the purpose of people's actions, but the means, more precisely, one of the most common ones. Adam Smith evaluates that the richness or poverty of a nation not by considering the amount of labor, but the effects of this labor. [5]

Regarding the salary, Adam Smith launches a theory of population: population increase is directly connected to the financial means, even in the civilized countries. The lack of financial means affects in an obvious way the lower levels of the population, and trying to limit the increase means using methods which contradict the moral [6]

According to Smith, the labor productivity is higher and the nation is richer when more people work and when the number of the people that only consume is lower. The subsequent richness is the effect of cooperation, of a good management of the economic activity, by labor division. [7]

Middle East scholars insisted in their writings about population on the advantages of a numerous population, without

considering the effects of excess, and focusing only on reducing the population gap. [8]

### **2.1. Thomas Robert Malthus's views on migration**

Thomas Robert Malthus created the first acknowledged theory, *The Population Theory*. The reason that made Thomas Robert Malthus research such a sensitive issue for that period was studying the progress of the society in those times.

Therefore, Thomas Robert Malthus reaches the conclusion that there is a connection between freedom and the lack of responsibility breeding: „wherever there is life, the breeding of the species prevails, and the resulted excess is afterwards removed because of the lack of space or food.” [9]

In his theory, Thomas Robert Malthus starts from the idea that the population grows faster than the goods necessary for living, noting that the population doubles every 25 years, while the resources grow at a constant rate. [10]

According to Thomas Malthus this leads to a huge discrepancy between the booming growth of the population and the possibility to provide resources that would be required for generating economic growth in those times. All these discrepancies lead to a gloomy future for man and mankind, and eventually the mankind will be faced with famine, filth, poverty, diseases, wars, and eventually death. The starting idea of his study was the constant connection between the number of people and the available resources for each nation, connection resulting from the natural flow of things.

Although Thomas Robert Malthus's theory was repeatedly contradicted, and still is even today, the socio-economic reality proves it right eventually, as far as the discrepancy between population and resources is concerned, for each individual nation.

Thomas Robert Malthus raises an alarm, emphasizing the strict connection between the population and the resources necessary for living, which proves that, many times, poverty is the reason behind the decision of leaving a region of even a country.

The theory of the value of work was taken by Karl Marks from the classics, more

precisely from David Ricardo, under the pretext of creatively improving it. According to this theory, the value of the goods is determined by the quantity of work necessary for producing them, measured by the number of hours a worker with medium-level skills and craft needs [11]

In the middle ages, immediately after the discovery of the Americas, this „New world” became immediately the territory the Europeans wanted the most, for its riches, being seen as „a mythical promised land” for many people and countries of the world.

One of the most important events after the Napoleonian wars are the population movements, that, in the last two decades of the 19th century, become more and more focused on America.

The migrations phenomenon raises a series of „mysteries” as far as the emigration and immigration numbers are concerned. Never the less, one thing is certain: the migrations phenomenon in Europe was from East to West and from South to North. At the beginning of the 19th century, most of the migrants came from Great Britain and Ireland, and at the beginning of the 20th century, from Italy and South Eastern Europe.

The already global migration flows of the end of 19th and beginning of 20th century from Europe to the New World were later replaced by flows from Latin America, Caribbean and Pacific Asia to North America and from Pacific Asia to Australia.

The most important feature of migration is the diversity, a no homogeneous number of migrants coming from most of the European countries. This diversity was given by the different social classes, had different trades, some of those becoming pioneers in the places where they settled. [12]

Marxism connects the migration with the overproduction crisis and with the role of the external markets in the development of the capitalistic economies. Migration to colonies represents a form of decreasing the overproduction crisis. Karl Marx has a similar approach to Adam Smith’s as far as migrating to colonies is concerned.[13]

Over centuries, a new theory is developed, being considered the starting point for classical liberalism. Its initiator was Friedrich August von Hayek, and his

approach will make the individual the central point of the research

The very existence of the individuals depends in great part on identifying the targets, achieving the goals or using labor force from an inferior social class. For Hayek, every society has certain groups that have ascending or descending paths, and which, depending on their goals and their behavior patterns, manage to achieve their main targets, becoming an example for the others (sometimes even a model to follow)[14]

According to Friedrich Hayek, the increase of population in the second part of the 20th century was cause, in great part, by an increase in the number of workers employed in the large industrial cities. According to the author, the development of the big cities and the migration of the population was caused mainly and „undoubtly by the technological changes”, favoring the establishing of big enterprises and the emerging of a new, important class – the clerks, without possessions, employed by big enterprises. [15]

The modernization of the traditional economic systems in the countries of origin can only be achieved by attracting them in the global circuit of economy and global labor force market, and for this, international migration represents one of the main forms of attracting cheap labor force, qualified of not.

The intensification of the relations between the developed countries and the ones undergoing development, through globalization (commerce, communications, infrastructure, science, culture, internet, and environment) is a decisive factor in the decision process of the foreign migrant.

During the last decades, the contemporary capitalism has been dominated by speeches on freedom of individuals, privatization of the companies, the benefits of globalization, etc, all claiming the decrease of the economic asymmetries and social inequalities. The term „globalization” often used in speeches to refer to a complex process of economic, political and society restructuring still remains an abstract concept, used vaguely and arbitrary. [16]

The political and economic changes that have taken place in the recent years took by surprise the various countries of the world.

Today, the nations are more or less involved in the migrations process and are forced to take restrictive measures regarding the social policy for regulating illegal migration.

### **3. Migration, an ongoing reality for all the countries**

The big migrations waves specific for the 20th and 21st centuries have given the possibility for the countries of the world to re-analyze the international migrations flow from the political, social and economic perspective, with deep impact on the national and global labor force market.

For more than 50 years, migrants have been seen as an important economic force for all the countries, sometimes even as a „life boat” in a new stage of „reconstruction of the entire world”.

International migration is caused by the geographic and regional discrepancies resulted from the comparison between labor force demand and supply on the secondary and primary sectors of the labor force market. The geographic differences between the various regions of the same country are mainly caused by the labor force demand and supply. Labor force comes mostly from the origin and destination countries, labor force market being the mechanism that generates the migrations movements.

Labor force represents a flow to the country rich in capital but at the same time poor in terms of labor force and income per capita

Specialty literature is very familiar with the North African and Turkish migration, initiated by the Western European developed countries in the 1960s, as part of bilateral programs for recruiting labor force.

Another example of migrations phenomenon is the one between Mexico and USA, as well as the European developments (migration between North and South and the other way around) after the Second World War. There are several differences between Europe and America. USA were at the beginning a country of immigrants from all over the world which brought with them a new modern technology, and in time the problem of resource preservation became a very acute one, unlike Europe, where the evolution was a gradual one [17]

Regarding the internal migration, rural-urban, the costs and sacrifices of moving are not very high, considering that both places share the same language, culture, religion, customs. International migration involves a series of major changes in the life of the migrant, removing him from the family, a new location, a new language, a new culture, civilization, the migrant being forced to integrate in a new foreign environment. [18]

The intercultural relations occurring during the migrations phenomenon in the European Union have been researched by (Tare., Chong Ju Choi ) ”in terms of difference between the benefits of economic convergence towards the problems of social mobility in economic convergence in the European Union, especially regarding the labor force”. *Economic convergences versus mobility analysis* applies to any region going through fast globalization, the best example being the gradual accession to the European Union of the various states. The authors analyze this phenomenon from two perspectives: methodological and economic convergence. [19]

The theoretical approach of migration, shared by both sociology and psychology, believes that the main macroeconomic imbalances may have a decisive influence on choosing and finding a job. All these imbalances on the labor force market come to influence the ability to find a new job and the labor productivity in the origin country of the emigrant, which in time can become more and more serious, and in the end becoming a part of his personality.

The concept of labor mobility and frequent changes of jobs, more often in the USA than in Europe, reveal the existence of two identities and approaches of external migration.

In most European countries, regardless the economic prosperity or recession , the migrant workers were used to long term employment, building social and community networks, contributing to developing their own identities.

It is very important to mention that regardless the country of destination chosen; there are several costs and benefits at individual level, at local, regional, national and international level. In this category fall the migrants with high professional qualification, which provide for the country

of destination an important brain gain, and for the country of origin, a significant loss of qualified labor force, brain loss.

#### 4. Conclusion

The labor force migration represents a complex and dynamic process, being based on a series of internal and external factors that in time and space generate, for both origin and destination countries, economic and social costs, political challenges but also several benefits that must be managed on a social, community and individual scale, with a significant impact on the global labor force market.

The end of the 20th century and especially the beginning of the 21st century remain under the strong influence of certain demographic, economic, technological, socio-political, educational, cultural, religious factors, leading in time to deepening the economic social and politic lags between countries and regions, generating new characteristics of migration processes. [20]

For sure, analyzing the history of the migrations phenomenon throughout history (since antiquity, Middle Ages, Renaissance, contemporary age) one cannot identify a standard similar behavioral pattern for the migrations phenomenon for each country and adapted to each economic situation.

Regardless the age and the gender of the migrant, in this period as well as until 500 years ago, the main factors influencing the migrating decision are economic, financial and social, both in the origin and destination countries.

The situation of the migrant at the decision moment becomes in time a rather unclear one, from all points of view (economic, financial, social and psychological) and by the nature and size of the phenomenon, the migrant may face one of the most important and significant experiences of his and his family's life.

#### 5. References

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- [3] Friedrich A. Hayek (2000), *Infatuarea fatală. Erorile socialismului*. Editura Antet, p.171; p.140
- [4], [13] Rusu, Valeriu (2003), *Migrația forței de muncă în Europa*, Editura Arvin, București, pp.13 -14.
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## Strategies Concerning the Translation of Specialized Texts

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### Abstract

*The aim of this paper is to investigate several cultural aspects regarding the changes and differences in translation and the specialized terminology used in medical business. The first part of this study accommodates the reader with the general background of the terminology issues faced by a translator. The reader discovers that the practice of translating is an old one, but the studies of translation are new. Furthermore, s/he becomes accustomed with concepts such as “word-for-word” vs. “sense-for-sense”, the influence of Dryden, Dolet and Tytler, the problem of equivalence in Jakobson’s view, Nida’s adaptation and methods, Newmark’s semantic and communicative translation or Vinay’s and Darbelnet changes in translation. The last part of this paper consists in tackling the issues raised by the translation of specialized texts, in order to emphasize the difficulties faced by translators.*

**Keywords:** translation, specialized texts, terminology, translator

**J.E.L. classification:** I00

### 1. Introduction

In the past decades, English has become the main language of scientific writing, due to the steady technological expansion and the new fields in which technology is used. Specialized fields, such as medicine, IT technology, economic sciences, law constantly undergo terminological changes, as developed countries invest impressive sums of money into research, resulting in new discoveries and the terminology that describes them.

The aim of this paper is to investigate several cultural aspects regarding the changes and differences in translation and the

specialized terminology used in medical business. The first part of this study accommodates the reader with the general background of the terminology issues faced by a translator. The reader discovers that the practice of translating is an old one, but the studies of translation are new. Furthermore, he/she becomes accustomed with concepts such as “word-for-word” vs. “sense-for-sense”, the influence of Dryden, Dolet and Tytler, the problem of equivalence in Jakobson’s view, Nida’s adaptation and methods, Newmark’s semantic and communicative translation or Vinay’s and Darbelnet changes in translation. The last part of this paper consists in tackling the issues raised by the translation of specialized texts, in order to emphasize the difficulties faced by translators.

### 2. Terminology issues

The rapid growth of technology and communication in the eighteenth century demanded a necessary tool for overcoming the difficulties associated with these multiple developments. At the beginning of the twentieth century, terminology “acquired a scientific orientation while at the same time being recognized as a socially important activity” [1].

Terminology is the branch of lexicology concerned with the study of specialized terms. Only in the past decades it has been consistently developed, with full considerations of its principles, bases and methodology [2].

The origins of terminology can be traced in the eighteenth century when researchers in the field of chemistry (Lavoisier or Berthollet) and the field of botany and zoology (Lineé) showed interest in the naming of scientific concepts. In the twentieth century, engineers and technicians became involved in terminology; the brisk progress of technology called for agreement

on the terms used, besides the naming of new concepts. The founder of modern terminology is considered to be Eugen Wüster. In 1904, in Missouri, the International Electrotechnical Commission (IEC) was founded which was the first international association of standardization.

Wüster considered terminology a tool responsible for eliminating ambiguity from scientific and technical communication. Therefore, he was interested in methodology and standards rather than theory. In 1975, at the Infoterm symposium, Wüster nominated four scholars he regarded as “intellectual fathers of terminological theory”: A. Schloman from Germany, who was the first to consider the systematic nature of special terms; the Swiss linguist F. de Saussure, who was the first to draw attention to the systematic nature of language; E. Dresen, the Russian who was a pioneer in underscoring the importance of standardization and the principal force behind the ISA, and, J. E. Holmstrom, the English scholar who was instrumental in disseminating terminologies on an international scale [3].

The continuous work in the field materialized in the three classical schools of terminology: Austrian, Soviet, and Czech. The first approach is the basis of a general theory of terminology where the nature of the concepts and the relationship between terms and concepts are of high importance. In Wüster’s eyes, terminology is an independent subject concerned with the relationship between science and other disciplines like linguistics, logic or ontology [4].

Both terminology and logic are interested in the notion of concepts. The first one is concerned with the relationship between objects in the real world and the concepts that represent them, while logic generalizes various objects that exist in the real world with the help of the abstract to arrive at the concept or class of objects. Terminology and ontology are both interested in the nature of things and their relationship with the world. The classification process starts with analyzing the relationship between the situation and the real world [5]. The ongoing development of terminology is the result of advances in technology and the ever increasing need for specialized communication among communities with different languages.

### 3. Specialized translation issues

Most translation problems arise both from differences between language systems and from conceptual differences, since not all languages have terms to refer to different notions. Apart from this, medical language is a variety of language appropriate to different occasions and situations of use. Sometimes, it serves for everyday communication between a specialist and a non-specialist, it covers the area of communication from specialist to specialist or it addresses the general public in the form of popular magazine articles.

Nevertheless, translators are not professionals in the respective specialized fields and rely on different strategies and solutions in dealing with the problems they encounter during the translation of specialized texts [6]. Most problems that a translator confronts are of various types but they can be categorized into terminological, linguistic and extra-linguistic. Scientific texts have to be defined as specimens of pragmatic, semantic and syntactic superstructures which, based on corresponding text-external and text-internal features, can be assigned to conventional text genres whose patterns and communicative norms have evolved traditionally in the course of professional communication [7].

From the terminological point of view, the language of different specialized fields, such as medicine, law, technology or economic sciences, is in constant change and development if we consider that new terms are added and other ones become redundant. Hence, there are numerous difficulties translators need to cope with when translating specialized texts.

Specialized terminology is difficult for several reasons. First, specialized texts include jargon and idiosyncratic phrases, which sound unusual in the context of every day conversation [8], to facilitate professional communication. In addition to jargon and idiosyncratic phrases already mentioned, there are also other very specific terms, which have been developed in order to describe a situation, a process, a method etc., so precisely that someone who is only reading or hearing the description understands exactly what is meant. Michael and Ingrid Friedbichler of the University of

Innsbruck in Austria report that “Over and above the standard procedures and resources commonly used for settling terminological problems or questions of register-appropriate language, we rely heavily on cross-referencing in our computer-held domain-specific text corpora with the help of concordancing software”. Essentially, this involves the use of electronic texts which make it possible to instantly check the occurrence, frequency and context of any given word or string of words in any corpus available. For example, the specific word “resolution” belongs to many science fields, being translated according to them. Thus, in medicine terminology, resolution is described as “the subsiding or termination of an abnormal condition, such as a fever or an inflammation”, while physics and chemistry give another definition to the same corpus: “the act or process of separating or reducing something into its constituent parts”. With contextual register, we can achieve a more accurate translation that would allow us to facilitate the use of professional communication.

Secondly, the specialized medical terminology is constantly developing, new concepts and terms are added to the literature, whether originating from Latin, Greek or other languages. Therefore, we tend to approach the specialized terminology problem by subdividing such term into prefixes, suffixes and roots, by analyzing them and thus becoming familiar with their meanings. Some example from the common Greek and Latin are as follows:

Prefixes:

anti- meaning “against”, “in opposition to”: anticoagulation = the prevention of coagulation, anti-inflammatory = a medicine intended to reduce inflammation;

ante- meaning “before”, “previous to”, “in front of”: anteflexion = a bending forward of an organ;

dys- meaning “painful”, “abnormal”: dysplasia = abnormality of development;

hyper- meaning “above normal”: hypertension = high blood pressure;

hypo- meaning “below normal”: hypokinesis = diminished or abnormally slow movement;

Suffixes:

-emia being a combining form occurring in compound words that denote a condition

of the blood: ischemia = an insufficient supply of blood to an organ, usually due to a blocked artery;

-itis - a suffix used in pathological terms that denotes inflammation of an organ: endocarditis = when the endocardium becomes damaged, bacteria from the blood stream can become lodged on the heart valves or heart lining; the resulting infection is known as endocarditis.

-osis – a suffix occurring in nouns that denote conditions and especially disorders or abnormal states: diagnosis = the process of determining a diseased condition.

Once we split the whole term into its components, we can readily grasp de meaning.

Thirdly, there specialized language is crowded with synonymic terms whose meanings are slightly different. Therefore, translators often have to do enough macro-editing in order to ensure that the text is cohesive and that its content, organization and flow of information correspond to the readers' ability to understand the translated texts.

From the linguistic point of view, there are two types of grammatical issues faced during translation, i.e. morphological and syntactical ones. On the one hand, morphology deals with aspects such as compounding, inflexion, derivation; on the other hand, syntax is concerned with the arrangement of words and with their interconnections within sentences. Thus, the syntactic structure of both the source and the target language triggers different means of organizing the messages in the target language, engendering a wide range of translation difficulties.

Furthermore, it is noteworthy that the linguistic choices are of two kinds, i.e. grammatical and lexical. In translation, it is extremely important to make the distinction between them and to keep in mind that lexical choices are optional to a certain extent, while the grammatical ones are mandatory. Another important difference, acknowledged by all linguists alike, resides in the fact that grammatical structures are quite rigid, while the lexical ones are more or less flexible, depending on the context. This is due to the fact that new words, terms and concepts can be easily introduced into a language, in quite short time period; on the

other hand, altering grammar structures or systems would be more difficult and it would also need more time. Moreover, the modifications in grammar systems are less visible, while the lexical ones can be recorded in dictionaries, for example. The differences in the grammatical systems of the two languages (i.e. source and target ones) trigger a series of modifications in the content of the translated information. These modifications can be performed by adding the information needed or even by removing the irrelevant elements in the target language. In this regard, Baker argues that “a translation which repeatedly indicates information that is normally left unspecified in the target language is bound to sound unnatural” [9].

Another significant difference between the source and the target language, as far the grammatical structures are concerned, is that of tenses. The Romanian authors often use the past tense in their medical research articles. These temporal structures are not always connected to time markers in the Romanian language; thus, translators may face several difficulties in choosing the appropriate tense when translating the text in the English language.

Another translation issue is represented by the passive voice, due to the differences between the source and the target languages and to the existence (or non-existence) of similar structures. In this regard, the scientific articles using passive structures often use this form without the agent (or the so-called logical subject). This raises a series of issues if there is no corresponding transitive verb in the target language, able to render a similar construction. In this regard, in the English language, the author uses the passive voice in order to “give the impression of objectivity” [10], while a Romanian author of a medical article uses a reflexive structure (such as „se observă”, „se constată”, „se înregistrează”, „se remarcă” etc).

However, it is noteworthy that this triggers several risks regarding the accuracy of the meaning that is to be rendered in the target language because a translation rendering a passive structure from the (Romanian or English) source language with an active construction in the target language or the other way around can modify the emphasis or even the meaning of the message

in the source language, the correct arrangement of semantic items, and even the information provided by the sentence. Therefore, a translator should take into account the possibility of performing such alterations and choose the best option regarding the use of the passive voice or its replacement with an active or reflexive construction, taking also into account its stylistic value in the source and the target languages. In this respect, Munday asserts that the translator should have in mind, during translation, “the function(s) of the passive and similar structures in each language. [...] It is always the function of a category rather than the form it takes that is of paramount importance in translation” [11].

In his turn, Newmark states that “the medical translator has much more freedom with grammar than with lexis” [12]. The accuracy of a translated medical article requires the compliance with the standards and norms of the target language regarding issues such as terminology, compound words, syntax, word order [13]. In the translation of scientific texts, in general, and of medical articles, in particular, the translator should comply with the rules governing these texts in the target language, in order to appropriately convey the meaning of the message from the source language text.

According to Pilegaard [14], on the pragmatic level, firstly, any translator is judged by his ability to produce clear, comprehensible translations and should take an active role in trying to ensure that the text is clear and readable. In their effort to be scientifically accurate, translators often make convoluted and almost incomprehensible sentences [15]. One of the pragmatic strategies is *explicitness change*, because in explicitness change strategy some information of the source text maybe added or deleted to make the text more or less explicit, as we can see: “a clinical reality” is translating as “să devină realitate” or “shape” „forme caracteristice”. Another pragmatic skill is *interpersonal change strategy* which is used to affect the whole style of the text to make it more or less informed, technical (e.g. „Doppler color” for „Doppler color flow imaging”).

From the extra-linguistic perspective, any translation “domesticates foreign texts, inscribing them with linguistic and cultural



values that are intelligible to specific domestic constituencies” [16]. The translation process begins with the decision to translate a foreign (specialized) text; it continues with the performance of the translation by the translator and ends with the publication and/ or the dissemination of the translation. Critics state that the translations of specialized articles, such as medical ones, are extremely useful as they contribute to the dissemination of scientific knowledge; on the other hand, they also agree that the translations of literary texts may represent a threat to a nation’s cultural identity by “constructing representations of foreign cultures” [17].

There are also other extralinguistic issues that trigger the complexity of the translation of specialized scientific articles. For instance, a translator may also comply with strict terms, stress, the variety of the scientific topics, the translator’s lack of experience in the field, his/her insufficient extralinguistic knowledge and even the limitations regarding space (for example, a limited number of words).

The translator’s extralinguistic knowledge also plays an important role in inferential strategies, which are frequently used in the understanding of a text in the source language [18]. Besides the appropriate use of the translation methodology, the extralinguistic knowledge should be accompanied by linguistic skills, which in the translation of specialized scientific texts might seem to play a less important role; this entails the fact that a professional in the specialized field is able to do a better translation than a translator who does not have the scientific knowledge in the respective field [19]. Thus, the accuracy of a translation is influenced to a great extent by the translator’s extralinguistic knowledge.

Consequently, culture specific items, such as words, concepts, should be explained for a better understanding of the text. Moreover, the omission of cultural items in a translation might engender a standardized, general text in the target language. In this case, however, such stylistic deterioration is less important in scientific texts.

It is well-known that the extralinguistic cultural issues in the translation of medical scientific articles may be triggered by the differences between Romanian and English

fields regarding social conditions and lifestyle. All these issues can be part of the doctor-patient dialogue and can play a significant role in diagnosing the patient’s condition and in establishing one’s aetiology. In such cases, the treatment of such issues depends, to a great extent, on the translator’s skills, on his/her extralinguistic knowledge in the two cultures (i.e. the source and the target ones). All these culture specific issues depend on the context and, therefore, their translation methodology cannot be generalized.

#### 4. Conclusion

If technology did not progress at the same pace as it does nowadays, medical translation would be quite uncomplicated as the basic terminology were largely similar worldwide [20]. Nevertheless, the situation has changed due to the technological and scientific breakthroughs brought by the twentieth century. These unprecedented discoveries are unlikely to come to an end soon taking into account the fact that a greater and greater number of professionals involve themselves in scientific research activities.

It is obvious that, before performing the translation, the translator should decide on the aim of the source text and of the target text, in order to select the appropriate translation strategies [21]. Definitely, the text in the target language should be as clear as possible, unambiguous and objective, in order to accurately render the information provided by the source text.

Another significant issue regarding translation is related to whether the translator should also correct the inaccuracies of the source text. A poorly written source text may mislead the translator. Although the correction of the mistakes in the source text does not fall into the translator’s task, the ambiguities or obscurities have to be rectified in order to maintain factual accuracy [22]. In this regard, Gouadec underlines that “mediocre translation is a sign of lack of concern and professionalism on the part of the person disseminating it, even though that person may be in no way responsible for the quality of the translation itself” [23].

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## Institutional Autonomy vs. Political Control

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### Abstract

*The main objective of this paper proposal is represented by the research of specific concept of institutional autonomy.*

*Within this theme we analyzed the legal and doctrinal concepts concerning institutional autonomy, the components of institutional autonomy and the relationship with the concept of administrative autonomy.*

*The theme had imposed, at the same time, an in depth study on the concept of institutional autonomy and its interrelationships with administrative autonomy, decentralization and regionalization.*

*One of the major research questions relates to the need for a balance between institutional autonomy and the need for political control.*

**Key words:** institutional autonomy, decentralization, regionalization, administrative powers

**J.E.L. classification:** K23

### 1.Introduction

In the field of political and legal science autonomy has many interpretations.

Georg Jellinek describes an autonomous entity as one based solely on its laws, with all the materials and functional attributes of the State's power: the authority to govern, administer and adjudicate. In fact, this can be synonymous with sovereignty.

According to Paul Laband [2], autonomy always includes the power of decision-making but differs from sovereignty in the sense that it can be exercised only within the limits of its well-established sovereign power. An entity can be seen as having autonomy only when it has its own powers of decision-making, administration and legal costs. A distinction must be made towards

self-government or administrative decentralization (FR.- decentralization administrative), a notion implies the idea that the entity which is self-administrated shall be subject to a higher entity that could perform this administration itself. There are authors who talk about the two terms (self-government and administrative decentralization) as two synonymous terms.

Leon Duguit [3] defines autonomy as involving an area protected by the legislative power of the State and Henry Berthlemy [4] uses the term as a synonym for decentralization, while Maurice Hauriou [5] uses it in order to describe the discretion which sometimes the laws leaves it to administration.

Jacob Robinson examining the nature of the autonomy believes that, by comparison with the concept of sovereignty, autonomy exists solely in respect of those powers which have been devolved, while sovereignty is the highest authority of the State.

The shortest definition of autonomy that we retrieve it in the literature on Heinrich Oberreuter [6]: the possibility of free self-determination within a pre-existing rule.

Autonomy literally means the power to establish rules of governing itself. However this notion may have at least two meanings. We could identify a prime meaning that of political autonomy, which is a requirement for sovereignty that stops at the threshold of independence. Understood as self-government, it expresses the possibility for local authorities to govern its own interests, or those that the law gives them in its task. This is the meaning given for the self-government term.

Regional autonomy as it is found in various European countries (e.g. Spain and United Kingdom) has the first meaning (politic autonomy). The current French Constitution accepts the two meanings but applies them in a differentiated way to the entities according to their nature: the first

sense for the “overseas lands” (New Caledonia, French Polynesia) – art. 74 – and the second meaning for the local authorities (art 72). The European Charter of local autonomy includes the second sense. This self-government has a political dimension but is the result of the elections and does not derive from the local authorities’ status.

In certain European countries, the notion of “autonomy” is mentioned in the fundamental law Italy-article 5, article 140 – Spain, Portugal, Romania, 6 – article 120, Greece – article 102.2), sometimes the term “administrative autonomy” being used. In other countries the term corresponds to the literal German term *Selbstverwaltung* (self-management), defined as “the right to govern under self-responsibility all the local interests of the authorities, which corresponds to the concept of “libre administration” of the French Constitution (art. 72) and the English term “self-government”.

Well, this notion of “self-government administration (“libre administration” in French) can be found in the Constitution of Russia of 1993 (*mestnoe samoupravlenie*), Ukrainian Constitution of 1996 (*mitzeve samovriaduvania*) or the Polish Constitution of 1997 (*samorząd terytorialny*). In Latin America, the term autonomy is usually preferred in both unitary States (Colombia-287) as well as in federal States (Argentina – art 123 ensures municipal autonomy). In Asia, the countries of former British colonies have retained the concept of local government and local self-government including and restoring traditional local methods of organization (not just Australia and New Zealand but also in India, Pakistan or Malaysia). There are, however, countries that refer to the term “local autonomy” such as Japan, Indonesia, Republic of Korea or the Philippines.

## 2. Methodology

The assumptions from which we started within this study are that autonomy based on a budgetary independence is much more profitable compared to that which is based on the authoritarian, centralized financial rules. This indicates that there is a higher inclination towards creating institutions that are financially independent and who have a legal basis support of autonomous bodies.

Also we could observe that there is a strong correlation between the degree of autonomy and responsibility of the institutions. This relationship suggests an effort in achieving a balance between the benefits of autonomy and creating some instruments that compensate the lack of a centralized social control.

There are many types of autonomies that are rooted in traditions, customs and norms which would not fit into the rigid standards established by Hannum [7]. Thus, one can observe that there is a weak and strong form of the legislative autonomy, encountered at opposite ends of the spectrum. Although most autonomies do not fall clearly within this classification (only a few autonomous communities can satisfy the conditions laid down by Hannum's definitions), we can still accept that they are identifiable as being weaker or stronger. Therefore, a legislative autonomy existing in a district or insular geographical area, deeply rooted, with an independent legislation and with different competences, with its own legal system and the ability to tax and spend, would be considered a strong legislative autonomy. The status of the Faroe Islands is closest to this. An autonomy that lacks these features, but with a distinct space and legislation, would be considered a fairly weak legislative autonomy. In contrast with strong autonomies, Nunavut and the Azores represent weak autonomies. It is important to note that the highest power of a genuine autonomy is represented by its adaptability. As Suksi affirms [8]: the content of the autonomy will vary according to individual needs.

Thus, the main discussion for autonomies is represented by the aim or aggregate number of research upon which the entity was granted; the depth of its control.

The existence of various forms of autonomy allows us a classification depending on the beneficiaries of the autonomy or its purpose.

Personal autonomy offers a guarantee of the rights and freedoms of a individual and not necessarily membership qualities, belonging to a cultural group. A separate administrative structure and a well-defined territory are missing.

Public administration is organized and

operates under the principles of local autonomy, decentralization of public services, eligibility of local public administration authorities, legality and consultation of citizens in resolving local problems of special interest.

Cultural autonomy differs from personal autonomy, the latter one having a broader purpose, referring specifically to a cultural or linguistic group. Cultural autonomy is based on collectivities and does not extend to all members of a society.

In our concept, administrative autonomy is very well differentiated from territorial autonomy through the scope and depth of the transfer of power. Functional autonomy consists in recognizing the possibility for some public services, to benefit from autonomy in their field of activity, while territorial autonomy is the one which recognizes the right of administrative units to self-administer.

In Hannum's [9] conception, territorial autonomy includes a constitutional local legislative, having its own, independent local legislative bodies, with the possibility to name an executive chief and a independent legislative system at local level which represents specific domains of local competence, would lead to a full autonomy.

The research carried out so far in the doctrine concerning the administrative autonomy vary from purely descriptive level of issues - demonstrating the levels of autonomy of the various administrative entities up to profound analysis focused on different institutions from European countries.

Firstly, the critics have bent on the causes in order to observe the different variations of the existing autonomy between agencies and variations in different individual agencies forms. Thus different explanations have been formulated, ranging from interpretative explanations (Pollitt, 2004) or historical explanations and reaching up to explanations based on specific characteristics of the agencies.

A different kind of exploratory research was carried out and channeled on the autonomy's effects on the administrative authority performance in studying the organizational structure as a condition of performance (van Thiel, 2000, Christensen, 2001) [10][11].

Although there is an abundant growth of scholarly research in this area, there are several current research oversights from a theoretical, methodological and conceptual point of view. These challenges are real and important because they show a quality of performance in research and a scientific quality of the normative debate among legal practitioners.

The trend of migration from a centralized administration towards the creation of autonomous bodies has been studied extensively, particularly in the Nordic countries (Norway, Sweden, the Netherlands, Denmark). The creation of specialized institutions may lead to a clear demarcation of responsibilities and roles, to a greater efficiency but can, at the same time, lead to the increasing of complexity of the problems of coordination, reducing the potential for political control and accountability.

One of the major research questions relates to the need for a balance between institutional autonomy and the need for political control.

Today, the public administration of the economic advanced countries offers a polyvalent fragmented vision: the public sector is overwhelmed by a multitude of organizations with different forms, created by different legal instruments and with different financial and budgetary arrangements. The problematic political control has become increasingly more comprehensive compared with a few decades ago.

### 3. Conclusions

We did not find any theory of autonomy that could answer to these questions in a satisfactory way. This is why emerged as critical the achievement of a scientific study which should find scientific instruments that can demonstrate the answer to these questions. This is why the present research is an innovative one and represents a high degree of novelty.

Starting from the study carried out within the COBRA project by Koen Verhoest and Bram Verschuere at the Institute of Public Management, Katholieke Universiteit Leuven [12] we developed a similar instrument. From the collected data we could detach common characteristics generated by each entity out of the 23 from the study lot,

describing the basic characteristics meet by an entity that seeks to be autonomous /independent. Thus, we can appreciate that these items shall be entered in the following directions:

Autonomous administrative authorities shall be established by organic law. Encountered in the basic law, this principle should always be respected when we speak about the establishment, organization and functioning of an independent administrative authorities, having absolute character. But in practice, this constitutional principle was very often violated. Some autonomous administrative authorities were established by organic law, but their status was modified by an Emergency Ordinance (Court of Auditors, the Supreme Council of the Country Defence, The Public Service Radio and Television, the Council for Competition, The National Commission of Insurance, The National Agency of Integrity), others have been established directly by the Emergency Ordinance (The Council of the National Security Archives Studying, The Supervision Commission for Private Pension System, The Romanian Authority for Quality Assurance in Higher Education), and others by ordinary law (National Agency for Press Release AGERPRESS). Without doubt, if all of these normative acts violating constitutional provisions (emergency Ordinances and ordinary laws) adopted in the field of autonomous administrative authorities should be subject to appeal to the Constitutional Court would block the activity of certain essential entities for Romanian democracy.

An administrative authority will be part of central public administration specialty as characterized by constitutional provisions. As ministries and other central organs subordinate to the Government, an autonomous administrative authority pursue an executive activity, i.e. organizes and runs into concrete laws, ensuring the proper functioning of public services established for this purpose. The fact that some central administrative authorities function near the parliament (for example the Legislative Council) or that they present progress reports before the Parliament, do not influence their legal nature, being part of the category of specialized central administrative bodies.

Autonomous administrative authorities have a high degree of independence, which

means that they are not under the Government's or any minister's jurisdiction. Of course, they must perform the ordinances and decisions of the Government. On the other hand, those authorities are not under the control the President of Romania, because the rules of the Constitution do not allow the creation of administrative bodies that are subordinated to it. At least in theory, autonomous administrative authorities are removed from the sphere of influence of the Government, but it is not always like so. In the case of the Supreme Council of Defense of the country, the autonomy of the administrative body is at least questionable as long as eight out of twelve members are part of the Executive. The autonomy of the Economic and Social Council is also relative, since the tripartite nature of this institution, in which 15 members are appointed by the Government, by employers' representative associations at national level and by the representative trade union associations at the national level, being clear that the Government can influence the decisions of the Council by rallying with one of the points of view related to a specific concern, more exactly: employer or trade union. The same situation is meeting in the case of the National Council for Vocational Training of Adults.

An administrative authority is a collegial decision-making (for example the Supreme Council of Country Defense, the National Council of the Audio-Visual, the Competition Council, the Court of Auditors), however, it is not excluded the existence of single authorities (such as the Ombudsman).

An autonomous administrative authority has the power of decision, which manifests itself by issuing individual administrative authority and sometimes even normative. In principle, the legality of such acts can be controlled directly, by means of administrative Judicature. These measures may be called judgments, orders, decisions, regulations, ordinances, guidelines, statements, opinions, etc.

The members of the central autonomous administrative authorities, and, sometimes, their directors are appointed directly by the decision of one or of both houses of Parliament, either on a proposal from a permanent Committee of the Chamber of deputies or the Senate, or on a proposal from

the President or Prime Minister of Romania, or by other methods.

An autonomous administrative authority depends on in one form or another on the Parliament (or at least on one of the Chamber of the Parliament). Their dependency towards Parliament is manifested differently. Thus, relative to other central autonomous administrative authorities, the Legislative Council is in relationship of dependency because, according to art. 79 of the Constitution, it is the specialized body of the Parliament. This criterion poses a certain degree of relativity whereas, on the one hand, not all autonomous administrative authorities shall be kept by law to submit progress reports before the Parliament, and on the other hand, the effects of the control exercised by the Parliament are not the same for all of these administrative organs. However, there are autonomous administrative authorities who do not report to Parliament. It is the case of NATB which, under the law shall submit quarterly and annual reports to the ministries (MMFPS and Department of Education). Most cases do not deal with direct and concrete measures if the Parliament decides that the work presented in the report is defective. Only in the case of public service television and radio, the Romanian Society of radio broadcasting and the Romanian Society of Television, is set out clearly that the rejection by Parliament of the annual report draws on the dismissal, by law, of the Board of Directors. At the same time can be identified two situations: reports submitted, the reports presented and discussed and respectively debated reports, without being subject to a vote. Also, sometimes in the law of the organization is stated a fixed date (15 April of the following year, as in the case of CNCD) or an interval (in the first half of the next year), or no date is specified until which the report should be submitted. At the same time, it can be noted that if reports are to be presented to the parliament, these can be sent either to one of the chambers, or to specialized commissions. Moreover, it would be useful to be provided in the organizational law some key elements that contain the annual report. (Achieved objectives, the way of managing the allocated resources, targets achieved in the following year, etc.)

The heads of these institutions are main

credit officers although in practice there are exceptions such as NATB. These institutions should have a clear mandate to pursue their mission in an independent way without the intervention of other entities in its activities. A wealthy budget should exist for them, on the long term, so as not to be afraid that their resources can be cut, if their work is too critical or unpopular.

The Heads of these institutions are often assimilated by senior public servants or officials (have the rank of Minister, Secretary of State, under-Secretary of State). This status ensures an extended authority of the institution.

The running costs of the autonomous authority shall be borne by the State's budget. However, there may be entities that provide their own financing activities (as is the case the National Bank of Romania or insurance supervisory Commission). We appreciate that a basic feature of these entities should be represented by the financial stability, precisely to ensure their independence. This can only be guaranteed by the amounts coming from the state's budget. However, in times of economic crisis the existence of additional sources of funding can only be beneficial.

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## Good administration. National and European regulatory framework

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### Abstract

*The question that emerges is this: Can we speak of the right to good administration in Romania, in our legislation?*

*Given the content of the right to good administration, as set by Art. 41 of the Charter of Fundamental Rights of the European Union, we will analyze Romanian law which governs relations between public authorities and citizens to identify which specific rules related to it, which relate to a requirement or another of this principle among these requirements may include: the right of citizens to be heard before taking a measure which could be prejudicial, the obligation to state entities treat anyone - who has a problem to solve by means of an administrative - impartial and fair, to address a problem in a reasonable time, to take a reasoned decision to cover up the damage caused by officials in the exercise of their functions..*

**Key words:** institutional autonomy, decentralization, regionalization, administrative powers

**J.E.L. classification:** K23

### 1. Introduction

Citizen action regarded as the main actor of local government is in constant interaction with both the company and the local administration. Its involvement in local community life is a component part of the confidence they can have in the administration. Since ancient Rome citizen satisfaction was an important criterion for senators who wanted to accede to public office. This situation continued over time, ignorance or carelessness on the situation of people being severely punished by them. With the establishment of democratic regimes in Europe and subsequently in most countries, the role and importance of the

citizen in public decision-making has increased, it became practically the main beneficiary of public policies. It was established as a citizen-government partnership that to be effective must be based on trust and responsibility from both sides.

An efficient public administration means quality services for citizens. But how can local government performance measured? There is a recipe for success on public affairs or cannot be defined a recipe for success but only an improvement in public services for the citizens? This problem was often discussed by theoreticians and practitioners and has been the subject of numerous studies. But how citizen satisfaction can be measured on how local government administers public affairs.

In an attempt to answer they were developed numerous studies and reports.

Performance measurement has begun to do since the late nineteenth century. In the first phase (which lasted until the 1980s) the emphasis was on financial indicators such as profit, profitability or productivity.

The administration performance measurement began to make when the managerial ideas have penetrated the system. Later under the influence of NPM idea gained additional momentum. There followed a government crisis that prompted a rethinking of the role of government. Therefore decade was marked by a reform of budgetary and administrative systems have resulted in the introduction of new methods of management such as performance measurement. NPM ideas were and still are very popular in the UK, Scandinavian countries, the Netherlands and probably in Austria, while especially France, Germany and Italy, like other southern European countries seem to have more reserves.

Starting from the fact that the public institutions can be considered an indicator of a company's performance for each of citizenship at a time into contact with at least

one public institution the doctrine considers that the way the relationship is conducted is an indicator that measures the performance management of that institution and thus the evolution of society as a whole.

Good local management is reflected in the quality of services.

In order to achieve this required mainly by two factors: an adequate legislative framework coupled with a strategy at national and local level of the authorities.

From a legal perspective we note that the legislature sought to explicitly regulate what are the duties of local authorities by special laws and which are the areas where it can provide public services.

We note that although the principle of decentralization makes local citizens to freely choose the authorities, how to exercise the powers of those authorities is regulated by the state.

Analysis highlights that legislation local government has an obligation to conduct business based on the principle of good administration in the administration of public affairs.

Analyzing the citizen-government relationship professor Ioan Alexandru [1] remark addiction, quite often, that it is against public authorities of executive power holders called to ensure and organize the implementation and compliance of law. The author characterizes the relationship as "inequality" and observed that this dependence appears questionable when expressed in relations with the public administration taken as a provider of services.

If administration theorists and practitioners have long discussed the need to ensure the delivery of services to citizens by local authorities in recent times there is an increasingly interest on the quality of service delivery.

## **2. Administration of good administration. National and European regulatory framework**

Although public administration in Member States of the European Union and Council of Europe is regulated and governed by the principles declared by national governments internationally have been

drafted documents setting out standards for effective work of the public administration and civil servants.

At international level, good management is mentioned from the first half of the twentieth century, when some of the problems the educational system in the United States were presented by Charles H. Judd as forms of obstruction of good administration, which was associated with the efficient work of schools.

According to the Charter of fundamental rights in Part II of the Treaty establishing a Constitution for Europe, Art. II-101, the right to good administration reads:

1) Everyone has the right to benefit, in terms of its problems handled impartially, fairly and within a reasonable time by the institutions, bodies, offices and agencies.

2) This right includes:

1. The right of every person to be heard before any individual measure which could be prejudiced;

2. The right of every person to have access to her file respecting the legitimate interests of confidentiality and of professional and business secrecy;

3. obligations of the administration to give reasons.

3) Everyone has the right to compensation for damage caused by EU institutions or by its servants in the performance of their duties, in accordance with the general principles common to the laws of the Member States.

4) Every person may write to the Union institutions in one of the languages of the Constitution and must have an answer in the same language.

### **The principle of good administration in the legal rules in Romania**

No doubt we could find a first response in relation to the priority of our law. In this case it would be the direct application of Community rules. Any Romanian citizen could invoke so before the administrative authorities, but also of the court, the right to good administration.

A more detailed answer, however, needs to consider all the regulations that govern relations between citizens and authorities, including the Constitution. In legal texts concerning this area have identified those rules expressing - in one form or another, more or less exactly - the principle of good

administration demands that citizens enjoy. Rules substantive or procedural rules - rules which establish rights for citizens, or work on obligations of the state, public authorities, establishing a correlative right that form the content of legal relations between state entities authorities and citizens.

Parting from the fundamental law we could observe that the constitution rules equal rights (art. 16), the right to information (art. 31), the right of citizens to address public authorities by petitions (art. 51, para. 1), the tax exemption for exercising the right of petition (art. 51, para. 3), the obligation of public authorities to respond to petitions within terms and conditions established by law (art. 51, para. 4) The obligation of the Ombudsman to take action if some people are prejudiced in their rights through acts or acts of administrative authorities (art. 59, para. 1) the use of a language of national minorities in relations with local authorities, under the conditions specified art. 120 and the right of national minorities to learn their mother tongue and to be educated in this language. (Art. 32, para. 3)

Continuing analysis cannot fail to notice that good administration was devoted to the Romanian legislation, as a principle by the provisions of Law no. 571 of 14 December 2004 on protection of personnel in public authorities, public institutions and other units that signal violations. Law impose obligations on public authorities and institutions of the central government, local government, the parliament, the Presidential Administration, the Government, autonomous administrative authorities, public institutions of culture, education, health and social assistance, national companies, autonomous administrations of national interest and local and national companies with state capital. By Article 4 e) of the Law, it is defined principle of good administration that *public authorities, public institutions and other establishments referred to in art. 2 of the law are obliged to work in the general interest with a high degree of professionalism, in terms of efficiency, effectiveness and economy of resource use*. It is noted that the principle defines the meaning of the Act, the components of good governance, namely: the general interest, a high degree of professionalism in achieving public interest in the work of local public

administration and use of resources in compliance with their efficiency, effectiveness and economy.

The importance of the principle of good administration as it is governed by the provisions of Law No. legislator. 571 of 14 December 2004 derive from the fact that it is sanctioned as misconduct *violation of other laws that impose the principle of sound administration and the protection of public interest*.

Regulation amended by Law no. 571/2004 the principle of sound administration is not exhaustive. Thus we find elements of good governance and transparency in the implementation of public administration, administrative simplification, the consultation of citizens in decision-making in the management of financial and material resources of the community. It is also noted that good administration is a citizen's right and duty of the administration, but in fact good administration should be an objective of local government work. In this regard are the provisions of the Code of Conduct of civil servants by Article 2 sets targets (...) *ensure that the quality of public service, good administration in achieving the public interest and contribute to the elimination of bureaucracy and facts corruption in public administration*.

Upgrading the concept of good administration to the rank of general principle of public law coincides with the intensification and increasing the diversity of administrative actions at Community level, which prompted European courts of justice and the European Ombudsman to develop standards of good governance and accountability responsibility.

The right to good administration as required by art. 41 of the Charter is essentially procedural.

As regards good governance, is subsumed under a final goal: human development, growth of welfare of citizens and communities. Therefore the act of governance goes beyond statehood - responsible for cost efficiency and governance - including a whole state, civil society and private sector, in a market economy is the main provider of income for the state budget.

As Plato said to govern is to practice the art of leadership, or art means in this context, processes, techniques, tools, methods, political, sociological, economic, administrative and, primarily, legal, resorting to any government. That is why we could define good governance as the effective management of public affairs by generating a set of rules in order to promote and strengthen society's values sought by individuals and groups.

A democratic state is created by its citizens. For the Council of Europe, the term "democratic" emphasizes the concepts of participation, democracy or participatory citizenship and seem to be increasingly recognized as being vital for the future. Reducing obstacles to participation, in particular socio-economic obstacles, is an integral part of any strategy aimed at strengthening citizenship in a democratic society. The exercise of democracy entails both rights and obligations on both the part of the governed and the governors.

### **Good local administration**

One of the realities of today is that many European citizens lose confidence in the central or local public authorities. No doubt the extent, dynamics and the causes vary from country to country, depending on specific situations. Thus we see a phenomenon where public opinion opposes increasingly more rigid acceptance of local governance practices, which are often associated with power systems.

In addition, voters are faced with suspicion, fierce criticism from the media, with the tightening of procedures and vigilance courts, elected representatives often decide not to run in elections because they are very tired and not motivated.

No doubt there are many ways to address these different phenomena, but the first step to restore citizen confidence in the institutions. This must be a return to the standards impeccable morally from the representatives and elected officials. The adoption of clear rules, transparent and effective sanctions is the only way to eradicate behavior that is condemned to the public, is considered unacceptable moral reasons.

One cannot conceive of a modern state without a well-articulated system of

administrative institutions and a good public service management, all built around the general interest.

Good administration means good leadership, good management of financial and material resources of the community in question made by the mayor and local councils democratically elected by universal, equal, direct and free vote.

Power finds its legitimacy in the public administration law. That is why we see that contemporary society sometimes requires a new balance between government domination and democratic principles. Public administration must return to its core joints - to serve the citizens interests and not exacerbate its dominant character. Government activity takes place in a certain order and procedural forms of strictly defined legal normativity.

Among the many roles taken by the administrative procedures we consider that two are of major importance: one is to assist institutions in administrative tasks within their jurisdiction. A second role is to ensure that the person affected by decisions and actions of administrative institutions are treated fairly.

In most cases the administrative decisions taken in the first instance fail to be appealed, and remains definitive. The mechanisms of control, even when they are easily accessible prove ineffective to remedy the mistakes and abuses committed in the first instance. For this reason the existence of rules and legal institutions which enshrines the duties of public administration must be accompanied by an indication of the concrete forms in which these tasks shall be fulfilled, forms specified by procedural rules.

Good governance is not possible without democracy and public participation, and the first sign of democratization should be entering into normality, which means law enforcement first, then depoliticizing administration and removing administrative centralism.

Changes produced after 1989 in Romania and the countries of Central and Eastern Europe have affected the social and political life and prompted a rethinking of the role and function of public administration. There have been major changes in the Romanian society

and the public sector was reformed. New governors since 1989 have become aware of the need for administrative reform, the reassessment of the role of state institutions by modifying the administrative system as it was designed in the past. The government was called upon to meet new performance standards are high expectations from citizens. In this framework, the emphasis is on local institutions that have new responsibilities. There is a move to control the state administration to increase motivation democratically elected body; there is a need to legitimize public documents. In this context of change are a series of changes in administrative philosophy and social service provision. It appears in the foreground of the welfare state idea which proved to be the best solution for Western countries. Reform the welfare state in the Central and Eastern European countries, it is supported by the administrative reform which is revalued the role of local public institutions.

### 3. Conclusion

The problems facing local government are actually issues of local interest so that their resolution should include citizen participation. Moreover, citizen involvement will support decisions and legitimize decisions taken by the authorities. The key element of this "partnership" between the authorities and community members is the confidence. Effective cooperation between the population and the authorities seem to be blocked by its absence.

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## Current Employment Trends in Georgia

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### Abstract

*Solution of the population employment problems is one of the priorities of economic policy of the country. Besides, it is necessary to form such a model of employment, which will adequately reflect the processes going on in social and labor relations of the society.*

*The article highlights the trends of employment developed in recent decades in Georgia and explains the reasons of their development.*

**Key words:** Georgia, Employment, labor market, population, women

**JEL Classification:** J64

### 1. Introduction

In the process of the labor market formation and operation the employment relations are essentially changing that naturally requires new interpretation of theoretical and methodological foundations as well as the analysis and assessment of the existing trends of employment.

### 2. Dynamics of economically active population in Georgia

In order to successfully overcome the problems accumulated in the labor market it is necessary to develop such a model of employment [1], which will adequately reflect the processes going on in social and labor relations, and also will allow us to overcome the difficulties arisen in relation with the transition to market economy.[4]

*Table 1. Dynamics of economically active population in Georgia ( thousand persons)*

	1990	1996	2000	2005	2010	2013
Economically active population, total	2763.3	2085.2	2049.2	2023.9	1944.9	2003.9
Employed	2763.3	2036.0	1837.2	1744.6	1628.1	1712.1
Hired	2502.6	785.1	683.9	600.5	618.6	658.2
Self-employed	260.7	125.0	104.2	114.3	100.7	1043.8
Not-identified worker	–	–	112.1	0.8	2.4	10.0
Unemployed	–	49.2	212.0	279.3	316.9	291.8
Population outside labor force			1092.3	1136.1	1083.3	1022.3

Source: [www.geostat.ge](http://www.geostat.ge).

The statistics show that from 1990 to 2013 the number of economically active population decreased by 27.5 % in Georgia. The tendency of decrease was observed throughout the period under study except 2010–2013 years when there was a slight increase.

In the period under study the index of employed population decrease was even higher - 38.0%. However, it should be noted

that the index of employed population decrease was especially high in 1990–1996, when it decreased by 26.2 %.

Such a change in the number of employed population was conditioned, first of all, by the fact that after collapse of the Soviet Union Georgia declared independence that was naturally followed by rupture of the existed economic relations and it took too long to establish alternative economic and commercial relations. The situation was especially grave in the industries of material production, which were very well integrated in the economics of the Soviet Union, but could not manage efficiently and timely to adapt to new reality. As a result, the number of hired labor force seriously decreased mainly caused by the changes in property relations. In particular, in 1990–1996 years the number of population employed in public sector decreased 3.3 times. And the tendency of decrease of population employed in public sector continued until the end of the period under study.[3]

Generally, it should be noted that in the period under study the number of employed in public sector and the hired labor force permanently decreased. Nongovernmental sector is characterized by quite different tendency of dynamics in employed and self-employed population. In spite of that, the present level of development of private sector cannot satisfy the job demand, due to which a significant part of labor force seek the living on foreign labor markets [2]. As the statistics show, in 2013 there were 1022.3 thousand of population outside labor force in Georgia. Those people are neither in the category of employed nor in the category of unemployed population - supposedly, they work either in shadow economy or live abroad. This argument can be supported by the fact that according to the statistical data of the population census of 2014, population of 5456.1 thousand living in the country in 1990–2014 decreased to 3729.6 thousand, i.e., it decreased by 31.7 %. Evidently, such a scale of population decrease was not the result of the tendency of natural growth of population, rather it was the result of the tendency of emigration especially labor emigration, which had a great influence on that.

During the period under study the number of employed population significantly

decreased in the field of material production, especially in industry, where in 1990–2014 their number decreased 5.2 times. Also, it should be noted that out of the population employed in 2014 in industry 8.2% falls on public sector and 91.8 % on private sector. In private sector 60.7 % falls on local natural or legal entities, while 39.3 % on foreign natural or legal entities.

Although during the period under study the number of employed population in Georgia significantly decreased in whole economy and industry, in 2006–2013 a kind of movement was observed in industry, which was reflected on the number of employed population. During that period the number of population employed in industry increased from 90.3 thousand to 112.7, i.e., it increased by 24.8 %.

### 3. Dynamics of economically active population in Georgia According to cities and village

It should be noted that the main part of the industrial potential of the country is in Tbilisi involving 45.7 % of population employed in production, 13.8 % in Quemo Kartli region and 13.5 % in Imereti region. It should be noted that Tbilisi’s share among those employed in production increased from 40.2 to 45.7% in 2006–2013, in Quemo Kartli from 11.6 to 13.8 %, while in Imereti, on the contrary, the share of that region decreased from 16 % to 13.5 %. Also, in the total amount of population employed in production the share of Adjara, Kakheti, Samegrelo-Zemo Svaneti and other regions decreased indicating unequal development of industry in the regions that has negative influence on efficient use of the industrial potential of the country.

*Table 2. Dynamics of economically active population in Georgia According to cities and village, ( thousand persons)*

	2000	2005	2010	2013
	city/ villag e	city/ villa ge	city/ villag e	city/ village
economically active population	910.1 /1139 .1	839. 6/11 84.3	847.8 /1097 .1	848.5/ 1155.4

, total				
Employed	742.5 /1094 .7	618. 9/11 25.6	617.2 /1010 .9	631.2/ 1080.8
Hired	478.8 /205. 1	423. 7/17 6.7	424.4 /194. 2	436.1/ 222.1
Self- employed	223.7 /817. 6	194. 5/94 8.8	191.5 /815. 7	190.0/ 853.9
Not- identified worker	40.0/ 72.1	0.7/0 .1	1.4/1. 0	5.2/4.8
Unemploy ed	167.6 /44.4	220. 6/58. 7	230.6 /86.3	217.3/ 74.6
Populatio n outside labor force	714.7 /377. 6	705. 8/43 0.2	637.6 /445. 8	615.1/ 407.2

Source: www.geostat.ge.

The data show that although in 2005–2013 the number of economically active population increased among the city population, it could not reach the level of 2000. In total, in 2000–2013 the number of economically active city population decreased by 6.8 %, among them the number of employed by –15 %, of them the number of hired by – 9 %, self-employed by 15 %. As for the unemployed population, their number increased by 29.7 %.

In comparison to the city population the employment of population in the village is characterized by some peculiarities. In particular, unlike the city the number of economically active population increased a little – by 1.4 %; the number of hired and self-employed population also increased – by 8.3 % and 4.4 %, respectively. As for the unemployed population and the population outside the labor force their number also increased – 68.0 and 7.8 %, respectively.

In relation to the index of employment of rural population it should be noted that its level is increased by the official statistics on account of the number of not-identified workers and we do not consider it right - it indicates the defects in the work of those structures.

#### 4. Women's Employment

Employment in Georgia is characterized by the decrease of both absolute and relative indices of women’s activity. For example, in 2000–2013 the women’s share in total amount of economically active population decreased from 48.2 to 46.2 %. In the same period the number of economically active women also decreased by 6.2%.

During the whole period under study there was such a tendency that the men’s share exceeded the women’s share in total number of employed population as well as in hired and self-employed population. Also, in all these categories there is a tendency of decrease of the women’s share. For example in 2000–2013 women’s share decreased from 48.5 to 47.4 % in total number of employed population, from 48.2 to 47.3 % in hired, from 48.5 to 47.4% in self-employed population. Quite different situation is in the category of population outside labor force, where the women’s share is quite high. In 2000 it was 67.7%, and in 2013 it was 69.0%.

#### 5. Conclusions

Thus, it can be said that in recent decades some negative tendencies were revealed in employment of Georgian population that had its objective and subjective reasons. Under the influence of economic crises the situation aggravated periodically caused by spontaneous transition to new conditions of economy and market relations, which had an influence on the employment of population and the level of unemployment. Formation of the private sector in economy changed the character and contents of employment.

The existing system of employment is not efficient and its structure is far from the optimal one that increases the number of people lacking employment opportunities. Naturally, such a situation has a negative influence on efficient functioning of economy making it impossible to carry out economically significant social and economic activities.

The process of formation of the optimal structure of employment depends on the tendencies of development of interrelated social and economic events happening in Georgia in recent years.



In particular, primarily, the macroeconomic problems of population employment depend on the development of private sector, the level and dynamics of labor remuneration, the structure of workplaces, the system of personnel training etc.

At a glance they seem to be the subject of a separate field of research, and it is true, but each of them has an influence on each other and finally, on the level and structure of population employment.

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# The Governance’s Impact on the Decline of the Romanian Cooperative Sector

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## Abstract

*Taking into account the direction of the consumer cooperatives after 1989 and the decline registered as a consequence of a sum of factors – the decentralization of the control activity, the lack of interest of the local and central authorities in supporting the cooperative’s activity, the sideslips of our own legislation, which allowed the alienation of many cooperative’s patrimony etc – this paper sets out to analyze what was the governance’s impact on the de facto situation currently registered in that sector.*

**Keywords:** consumer cooperatives, governance, indivisible reserve, divisible reserve.

**JEL Classification:** G34, J54.

## 1. Introduction

The economic crisis which made itself present in Romania after 2008 [1] for most of the cooperative societies meant the reduction of production and orders, which led to the decrease of the sales figures and to unemployment, thus emphasizing the decline of the cooperative movement. For many cooperative societies, the main preoccupation in this difficult period became survival; most of the societies dealt with restriction of activities or even the shutdown of their units.

The statistic data at a national level show that the highest ratio within the cooperative societies is held by the consumer cooperatives(42%) and the trade cooperatives (38%), while the agricultural cooperatives own 16% of the total and all the rest of the other cooperatives registered represent 4% [2]. After 1990, as a consequence of the decline registered in the classic activities, the cooperative societies were compelled to reorient towards new activity domains and

new income sources; within this category there was the renting by the third parties of spaces held by units. In many of the cases, the cooperative societies’ survival depends upon this source of income, lacking other ongoing economic activities.

## 2. Literature review

Research carried out in various countries, as well as the comparative studies regarding the cooperative organizations, have shown that they are sensitive to the institutional context in which they evolve, which determines their nature and their role in society [3], [4], [5], [6], [7]. Depending on the political context in which they evolve and on the support they receive through the national public policies, these gain a social and economic significance, since:

✓ they are private organizations *with an explicit social mission*, that do not aim to maximize the incomes but, as a priority, to satisfy the needs of the members and the communities where they work;

✓ they are organizations that follow the *constraint of total or impartial non-distribution of profits/surpluses*, between the members or administrators, and, in the case in which the distribution does take place, this is not proportional with the contribution to the initial capital, but with the activities or transactions within the organization;

✓ they are *organizations with a strong democratic character* regarding leading, management and defining or redefining the common social needs.

As a consequence of the organizational mechanisms such as members cooperation, the limited distribution of profit and its reinvestment in the development of the activity unfolded by the organization, the democratic governance and the members’ participation in making decisions etc, the cooperatives acceded to decreasing poverty

in the communities they belong to and they can be considered new welfare suppliers.

As actors of social economy [8], the cooperatives proved that they can approach problems connected to social inclusion, the environment’s protection, the sustainable social development, also having at the same time a successful economic activity. Especially under poor circumstances on the market, the cooperatives proved that they can contribute to social cohesion and fix the problems which affect both the members and the communities they belong to [9], because:

- ✓ they use unprofitable locations for the commercial societies;
- ✓ they ensure jobs for the vulnerable persons who have problems integrating in the labor market;
- ✓ they buy manufactured goods at a local level at higher prices in regard to ensuring food safety as well as for developing the local economy;
- ✓ they sell goods/ provide services at lower prices in low income communities for supporting them in the spirit of the social objectives that must be accomplished;
- ✓ they get involved in developing the community, respectively financing the community development projects.

### 3. The decline of the Romanian consumer cooperation after 1990 and the diagnosis of the current situation

After 1990 the Romanian consumer cooperation struggled to maintain itself in an unfavorable context for the social economy, without the support of the governors and of the local community. The data synthesis regarding the number of the active entities, hired personnel, total incomes, assets, profit, is shown below:

*Chart no. 1 The consumer cooperatives: active entities/personnel between 2000–2012*

Consumer cooperatives	Active entities	Total personnel
2000	874	13.402
2005	941	11.287
2007	927	9.124
2009	894	7.401
2010	958	7.485
2012	940	7.050

Source: INS 2000 – 2012

*Chart no. 2 The consumer cooperatives: total incomes/profit between 2000–2012*

Consumer cooperatives	Total incomes euro	Total profit (euro)
2000	139.854.024	6.834.525
2005	31.220.991	2.836.914
2007	25.075.223	1.747.932
2009	29.489.275	662.204
2010	41.137.487	1.261.032
2012	126.931.935	1.403.599

Source: INS 2000 – 2012

*Chart no. 3 The consumer cooperatives: total assets between 2000–2012*

Consumer cooperatives	Total assets (lei)
2000	44.755.054
2005	94.081.857
2007	130.743.114
2009	151.027.781
2010	199.204.000
2012	265.295.000

Source: INS 2000 – 2012

From the data shown above we notice the following:

✓ in 1989 in Romania there were 2580 active entities per total cooperatives where 6,550,000 persons worked; the majority of the organizations were found in the rural environment, owing this to the specific of their activity and to the fact that in the communist years they unfolded most of their activity in the rural environment. After 1990, the number of the cooperatives dropped (see chart no. 1) as a consequence of the problems with which these confronted by passing to the market economy – difficulties connected to property of land and buildings, incapacity to further acquire the members’ products, inflation as well as the drastic reduction of the members’ number. Between 2000–2012 there was a stagnation of the organizations number, from 874 in 2000 to only 940 in 2012.

✓ significant decreases were also registered at the level of the hired personnel in the structures of the consumer cooperation, from over 13,000 persons in 2000 to little over 7,000 in 2012. The most significant decreases of the employees’ number were registered in the manufacturing industry field, wholesale and retail, transportation and storage.

✓ the consumer cooperative’s incomes dropped from 139 million euro in 2000 to

only 31 million euro in 2005; values that exceeded 30 million were only registered after 2010, when the economic crisis was overcome, when the incomes exceeded 40 million euro. Regarding the income structures for 2000-2009, 79% of the total incomes came from selling goods and only 21% from renting spaces and selling assets. After 2009, the situation strongly degraded, now over 40% of the cooperatives' incomes come from disposal of assets and renting existent spaces and almost 50% from selling goods.

✓ the profit, expressed in euro, registered a significant descending curve; during the five years between 2000-2005 the profit drastically decreased, from 6,8 million euro to 2,8 million euro, and in full economic crisis (2009) it didn't even exceed 670,000 euro. The numbers are eloquent and they reflect the disastrous situation registered by the cooperative sector, lacking both the central and local authorities' support. Between 2000-2010 there was an increase of the deficit and a decrease of the units' percentage which made a profit [10], from 89% to 55,3%. The specific of their activities makes them more vulnerable to the effects of the economic crisis, the main issue was disloyal competition. In 2010, after the difficult crisis, there was a profit evolution and an ascending trend, with over 1,2 million euro, respectively 1,4 million euro in 2012, but the situation was really dramatic at the end of 2014, with only 271,781 euro. During the entire analyzed period, the economic profitability rates calculated as a report between the cumulated value of profit and the one of the total expenses did not exceed 3%.

✓ the only ones who registered increasing evolutions was the cooperative's assets which registered an ascending tendency between 2000 and 2009, from 44,755,054 RON in 2000 to 151,027,781 RON in 2009; the cooperative assets are almost exclusively tangible (fixed assets), with the financial ones representing less than 1% of the total fixed assets.

As a whole, the evolution of the consumer cooperative registered a descending trend, with a significant impact, most of the times, from the faulty management, besides other internal or external factors.

#### **4. The weak governance – factor of decline of the Romanian cooperative sector**

The first regulation which targeted the cooperative after December 1989 was the *Law decree no. 66 from February 8<sup>th</sup> 1990*, which was the foundation for the principles of free choice of the governing bodies, the right to free association and which canceled the state's right to intervene and direct the economic activity of cooperatives. Subsequently, the *Law no. 109/1996 regarding the organization and functioning of the consumer cooperative and the credit cooperative* constitutes an important tool for the cooperative movement, since the regulation is built on democratic foundations, without the politics' intervention and the state's meddling in the cooperative's activity.

After 1990, the transformation process of the cooperatives was continued by the *Cooperative law* enacted on February 21<sup>st</sup> 2005. This helped built the foundations of a democratic management based on the principle *one man, one vote*. The member quality is rigorously regulated, by the concise stipulation of all rights and obligations which derive from it, so that a member cannot cause grave prejudices to the cooperative and, in return, the cooperative cannot take measures against its members without the approval of the superior management forums. Since the management body – the Board of Directors – is only constituted of people that are cooperative members (art. 46 Law no. 1/2005 regarding the organization and functioning of the cooperative republished in the Official Monitor, 1<sup>st</sup> Part, no. 368/20.05. 2014) it is ensured that the members have the majority of the executive management and not so much the people outside of the organization.

A special trait of the cooperatives is delimiting the patrimony in two (art. 64 paragraph no (2) from Law nr. 1/2005) when constituting the capital – divisible and indivisible. The divisible part of the social capital is that patrimony division, which comes from the initial/subsequent contribution to the constitution/majoring of the cooperative's capital by issuing new social parts, respectively the total dividends due to all cooperative members over time. Regarding the indivisible part, according to the Romanian legislation, this stems from the

capital gathered by the cooperative during its activity, minus the divisible part and it cannot (art. 6, letter J from Law nr. 1/2005 regarding the organization and functioning of the cooperative republished in the Official Monitor, 1<sup>st</sup> Part, nr. 368/20.05) be the object of distribution or acquisition between the cooperative's members. Through the obligatory indivisible reserve one stops the decapitalisation and it is thus ensured a cash source for the cooperative. Both management and its members must treat the indivisible reserve as a mode to guarantee working places for more generations and not from the perspective of a property that must be *privatized* by the current cooperative group. Since the indivisible reserve cannot be transferred outside the cooperative movement (art. 87, paragraph (2) Chapter X – Acquittal of the cooperative society from Law nr. 1/2005 regarding the organization and functioning of the cooperative republished in the Official Monitor, 1<sup>st</sup> Part, nr. 368/20.05), in the case of a consumer cooperative society's dissolution, the indivisible part is mandatorily donated to another cooperative. This has a great significance during tight financial times or when the elder workers retire and no new members to replace them can be found. Likewise, during the economic growth, the indivisible reserve does not allow the alienation of the cooperatives' patrimony by the private investors, possibly attracted by the field's appeal.

In Romania, the years after 1989, especially between 1990 and 2000, led to activity decreases, both through the disappearance of sale markets (controlled before by the state), as well as the disappearance of some economic transaction partners (especially big enterprises). Activity decrease was also followed by the almost quasi-general tendency of the cooperatives to value their goods through sale, to the short term benefit of their members. Moreover, there were identified a series of developments at the border between legal and crime, which led to the decapitalisation of the cooperatives in the interest of some small groups of persons. In the following we will present two scenarios inspired by the autochthonous cooperative environment:

#### Hypothesis no. 1

We take a 2<sup>nd</sup> degree cooperative society with 7 associates that has three buildings which, by the General Assembly's decision (5 votes to 2) has alienated them. The General Assembly's decision was published in the Official Monitor, the obtained profit was directed towards dividends distribution, paying at the same time the fiscal debts. The current cooperative legislation was followed and, although the action is completely unethical, since the divisible reserve does not ensure the associates' remuneration, they have built a method to get rich without a proper reason.

Under these circumstance, the dimension of the indivisible reserve which will be taken over by a cooperative society of 1<sup>st</sup> degree is not relevant, since the 2<sup>nd</sup> degree entity was intentionally decapitalized by its own associates.

#### Hypothesis no. 2

For a 2<sup>nd</sup> degree cooperative society with 5 associates which has three commercial spaces it is decided through the General Assembly's decision the sale of the respective assets. Having evaluation reports which willingly under-evaluate the assets, three of the associates become the new owners. Under these circumstance, the entity is decapitalized and robbed and thus it won't have the appeal to merge with another 1<sup>st</sup> degree entity.

The following pertinent question arises: could the weak governance be one of the main factors of the Romanian cooperative sector's decline?

Law 1/2005 had negative effects on the cooperative sector through *destroying the control system* and through the possibility of alienating the patrimony to the members. Even before this law in the cooperative system there was a control system for the cooperatives' activity that was rigorous enough, in a hierarchical organization that is very strict. In the old legislative formula the activity 1<sup>st</sup> degree cooperatives were controlled by the 2<sup>nd</sup> degree ones, whereas, according to Law 1/2005, the 1<sup>st</sup> degree and 2<sup>nd</sup> degree cooperatives are associated at a county level. Through this unity, the county union – which is a 2<sup>nd</sup> degree cooperative – has no right to supervise and control, since each cooperative is independent. Canceling control allowed the discretionary action of some of the administrators of consumer

cooperatives, with beneficial effects on their economic prosperity and with negative, disastrous effects on the interest of simple cooperative members. With a legislation that allows this kind of sideslips, in a sector that is very important, the collective interest takes the second place and the answer to the above question is obvious.

## 5. Conclusions

The governance problems have a significant impact on the evolution of the Romanian cooperative system. A first challenge after 2000 was the restitution, according to Law no. 1/2000 of buildings and land claimed by the former owners. If during communism the cooperatives were allowed to build constructions by using the available land from the state, after Law 1/2000 was implemented, a lot of the land on which the cooperatives' buildings exist were claimed by the former owners, some were won by them, with consequences on the *impoverishment* of the patrimony of some of the cooperatives.

Secondly in the analyzed issue there is the governance crisis at the level of the cooperative entities, as a consequence of the weakened coordination and control ability from the center. If during the communist years the coordination and control from the center – through the National Union of Cooperatives – was translated through issuing mandatory norms for all cooperatives, realizing the control function, establishing damages and their imputation for the guilty ones, after 1989 the coordination capacity of the cooperative's activity by the central union highly deteriorated, its decisions stopped having a mandatory norm character, with all the consequences that ensue from here.

Additionally, in many cases even the management significantly contributed to the decline of the cooperative sector, alienating the buildings, especially after Law no. 1/2005 passed, which allowed the patrimony's division. With the approval of the general assemblies, constituted by less members than before 1989, buildings from the indivisible patrimony started being moved to the divisible patrimony and they started being alienated under the pretext of capital need for survival or development. Therefore, even under the law's umbrella, the cooperative's

impoverishment through patrimony alienation was allowed.

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## The Impact of Savings in Economic Growth. Comparative Study Between Japan and China

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### Abstract

*As the name suggests, this article aims to show the impact that savings have in the economic growth of a state, starting from saving rates in two countries that have experienced fulminating growth in the post-war period: Japan and China.*

*We will substantiate the study by using the econometric apparatus, namely through regression in order to quantify the impact of analyzed elements on economic growth. In terms of quality, we will analyze the socio-historical-cultural factors that facilitated these high savings rates.*

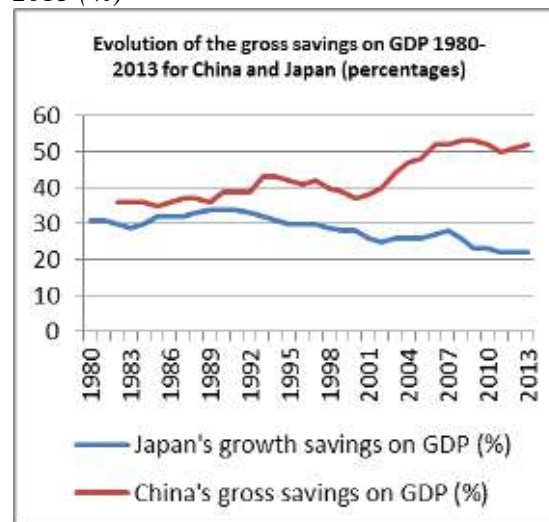
*The importance of the study lies in the fact that our results will show whether these two countries could set an example for other countries, but also savings contribution, which by determining an increased rate of investment, contributes to economic growth.*

**Keywords:** savings, economic growth, China, Japan  
**J.E.L.:** E210

### 1. Introduction

Both countries analyzed have detained in the period of maximum economic advance in the post-war times, the state position with the highest national savings rate in the world. Whether we are talking about Japan '60s, when this nation managed to go from a destroyed by the war nation, the third world economy in 1968, be it about China that after a period of almost three decades of isolation in Mao's period, with the takeover of power by Deng Xiaoping, was about to enter the period of "great economic transformations" (as Coase and Wang called it [1]) and to record impressive economic growth, both countries have relied on very significant savings rates as we can see in the figure 1:

Figure 1. Gross savings on GDP 1980-2013 (%)



Source:

<http://data.worldbank.org/indicator/NY.GNS.ICTR.ZS>

The economies represent first and foremost a way to allocate their consumption over time and the second a source of capital for companies. Thus, saving is represented by a function of savings supply (especially for consumers see [2] and [3]) and investment demand (especially for firms) having as market price the interest rate.

To begin with, we have the problem of choosing a savings rate for our study between the households, the private sector or the whole economy. Private savings include both households and companies, but we believe that it is not enough, because according to the theory of Ricardian1 equivalence companies can see behind the curtain and can internalize governmental budgetary constraints. We therefore consider appropriate to use the national saving concept that includes both private and public ones.

The importance of these saving rates is a significant one and resides mainly in the fact that they allowed the two countries analyzed a sustained pace of investment, i.e. the

purchase of capital goods expenditures. If we take the case of Japan, they have allowed the country a fundamental revamping and thus a labour productivity superior to other advanced countries giving a significant comparative advantage, and if we talk about China, the economies have supported it in a particularly intense transition from one low-income economy towards a market-based economy with average incomes in a period where it was difficult to attract foreign capital.

## 2. The causes of significant savings rates in the two countries

Regarding the causes of these significant savings rates in Japan we mention the following:

- The system of bonuses - this system of bonus offered biennially, supports saving by the fact that these employees receive significant bonuses. If it was about the monthly amount, they would be smaller and more difficult to saved up;
- The cultural factor - the mix between the original Shinto culture with Confucianism and Buddhism Japan urges the Japanese to temperance, to savings. In addition, the Japanese have a greater aversion to risk in comparison with Anglo-Saxons and a patience greatly increased; thus the saving hypothesis for a long period with high yields and without risk fits the Japanese spirit;
- The highly charged program - the fact that in Japan there is a cult of work, people exercising their professional activities for a long time, puts the Japanese in a position to not have time of spending money;
- The exorbitant price of movable assets - as shown by Hayashi, Ito and Slemrod in Japan [4] in order to purchase a house is needed 40% of the sale price, without this condition, credits not being accepted. Their price is very high, and to accumulate such an amount were required in advance significant savings;
- Substantial tuition fees - the awareness that they have to pay school fees well above other

developed countries makes Japanese be more sparing;

- The underdeveloped social security system - pensions were lower in Japan than in the rest of the advanced countries, and the amount to be paid for life insurance is highest (1.55 times higher than in the US, 2 times higher than in England, 2.38 than in Federal Republic of Germany, 2.68 times than in the Netherlands, 2.95 times than in Canada and 3.78 than in France) [5];
- Increased life expectancy and the retirement age - determined the Japanese to save for a longer period (for more details regarding the saving rate by age and life cycles see [2] and [6]);
- Tax incentives - through these they encourage saving;
- Taxation on revenue - the famous Maruyu stipulated that the income up to a limit of 12 million yen (about \$ 60,000) for employees, respectively 6 million yen for unemployed were toll free. Thus the Japanese were able to save more. The fact that the stock profits were not taxed if were made less than 50 transactions per year, interest income tax of 9.6% [7], prompted the Japanese to keep their daily living surplus resources in bank deposits or from acquiring shares in 1980 with the aim to hold for longer periods of time (being long-term investors). A total of 50 transactions annually levied a tax rate of 18.1% ;
- Inheritance - unlike Americans in Japan are left significant legacies that in Horioka's [8] opinion represents one of the most important factors. This could be a mere shift asset from parents toward children to consume all income without saving, but cultural heritage makes such a course of events to be less probable.

In China's case, as Rick Harbaugh [9] classified and described the factors that have contributed to significant rates of saving would be:

- Cultural factors - Confucianism and Buddhism urges restraint. Long-term vision that urges toward saving is



found in China since the days of youth;

- Undeveloped insurance markets - both social and private insurances are not very developed in China (especially in rural areas) which leads people to save for precaution;
- Liquidity constraints - the fact that there was not a very developed market credit for individuals, it allowed young people to borrow heavily to pay for education, buy assets or other expensive stuff, being forced to save first in order be able to purchase the desired stuff.;
- Historical experiences - the decision to save or not is based on a historical component i.e. the degree of poverty in a country that experienced some period before and from this point of view China has suffered in the twentieth century;
- Transition factors - the transition from a planned economy into a market economy represented a superior motivation for people to save for being able to buy the assets, for example in privatization processes.
- Demographics - China is the country that registered a significant baby boom, and starting with this generation reaching employment age there was also an increasing rate of economies in China. One-child policy has had a significant impact because China still has low old-age dependency ratio;
- High Savings Returns - the fact that there is a high demand from investment companies and the foreign capital was not very present made the yields for savings to be raised;

### 3. Empirical analysis investigation of the impact of savings on Chinese economic growth, respectively Japanese

Economic growth represents the increase of macroeconomic indicators (calculated on the total economy or per capita) over a period of time, usually one year. World economic development history shows that at all times the welfare of the people was given by the gross domestic product, which represents the

gross value of final output of goods and services during a period of time by businesses operating within national borders. In economic literature there are numerous approaches to the classification and ordering of economic growth factors.

They were developed both by the possibilities for quantifying the direct and indirect contribution in prioritization of action by economic policy, but also basing on their appearance in the issue of economic dynamics.

This study aims to identify through a simple linear model the impact of savings on Chinese and Japanese economic growth. The data sample includes annual values of saving during 1980-2014.

NB: it was considered a lag of five years so that savings can be found in economic growth.

The simple linear model explains the behaviour of a dependent variable Y in terms of a single explanatory variable marked with:

$$Y=c+\alpha X_1+\varepsilon$$

The variable residue  $\varepsilon$ , includes the effect of other explanatory variables, unspecified in the linear equation, errors regarding the indication of the model form (the model can be nonlinear) and other errors such as measurement errors.

#### *Empirical results:*

Simple linear model that explains economic growth behaviour based on saving is relatively well specified and has equation:

For China: Economic growth=  
 $c+0.803*\text{Savings}$

For Japan: Economic growth =  
 $c+0.601*\text{Savings}$

### 4. Conclusions

Primarily, the results of applied econometric model can be interpreted so:

- In the case of China, a direct relationship exists between economic growth and saving: a variation of 1% of savings will determine on average, a variation of 0.803% economic growth, the other factors assumed to be constant;
- In the case of Japan, a direct relationship exists between economic growth and saving: a variation of 1% of savings will determine on average, a variation of 0.601% economic

growth, the other factors assumed to be constant.

Secondly, the significant saving rates represented a cause of surpluses recorded by both countries because saving reduces consumption and investment generates a production increase. Thus, Japan, a country almost entirely dependent on raw materials, managed to maintain a surplus trade balance after the second oil shock for three decades until the nuclear Fukushima disaster and in the case of China, trade surplus increased sharply in recent years beyond 2014 an amount to 315 billion.

Thirdly, these significant rates of savings were the ones who supported the two countries in the first part of economic advance. In China's case with their help it managed transition from one low income economy, planned, toward an economy market-based with middle income. The economies have played an important role in the first part of reforms allowing higher investment rates when foreign capital was very difficult to attract.

Fourthly, saving rates allow both countries to benefit from significant liquidity and as Japan in the late 80s gave the impression that it will acquire the entire world, we believe that this will be the trend and China will comply in the near future.

Fifthly, an interesting aspect to note is linked to the fact that at least theoretically savings would be greater in the case of high-income countries and less significant in the case of countries where incomes are low, but it was not the case of the analyzed countries, both Japan since the 60s, 70s and 80s, 90s China, representing exceptions.

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## Specific Features of Female Criminality

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### Abstract

*Lately, the interest in the criminality committed by the fair sex began to rise. This is primarily due to the fact that, in many countries, the women incarceration rate experienced an unprecedented rise, advancing that of men. The phenomenon of female crime often entails controversy and confusion, being compared to male crime. Women have achieved everything a man can socially achieve... so why would they be seen as unequal in terms of crime, customizing the concept of life suppression?*

**Keywords:** crime, woman, violence, frustration, deviance.

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

### 1. Introduction

"Why do women commit crimes?" The woman – the fair, gentle and equitable sex – is known for its cautious and compassionate nature. Conventionally, within the society, she plays the role of the caring mother, the loving wife, the affectionate daughter, the sister you can rely on, the cute girlfriend and other similar positive roles. Then, suddenly, we find out about a series of horrific actions, of abominations, which make us shudder and wonder how could a woman, who is able to give life, succumb to the demon inside, killing men, women or children?

How different are the female psycho-killers from the male ones? Traditional criminological theories have not found an answer to the question regarding the causes of female crime because they have not asked themselves this question. Although, in some classical texts, there are some details regarding women, it is clear that the explanations indicate that crime is a male problem, as the number of women who commit crimes is too small and, as such, it is

not worrisome.

C. Rasche has identified three reasons regarding the question "Why do women have been consistently neglected in studies on delinquent behavior?" First, they have always represented a small percentage of the prison population (about 7%); women generally raised an insignificant interest in carrying out the research on this issue [1]. The lack of attention to women offenders is the result of considering female crime as an unimportant social problem [2].

Regarding the modus operandi, the most commonly used method is poisoning. There are women who are known to have killed up to seven husbands in order to collect the money from their life insurance. Thinking about women in this role is difficult, but we must admit that, unfortunately, the situation is changing, the number of women offenders showing a considerable increase in recent years. Compared to men, women are more prone to abuse and violence, giving rise to an abnormal personality with an amount of hatred hidden in corners of their minds. In most cases, they just need an event, a challenge in order to be able to turn themselves into monsters.

### 2. The need for female crime research

First, it is doubtful that the general theories of crime can be applied to women who commit crimes. Secondly, while class, race and age are key elements in researching the types of crime that form the central part of criminological theories, the gender-based structure is ignored. Although closely related, the two aspects raise different questions for criminology. The first is whether the theories that describe men offenders can be applied to women (the generality issue). The second is why women commit fewer crimes than men (the gender ratio problem) do.

An analysis of the classic works on female crime, performed by D. Klein [3], C.

Smart [4], P. Carlen and A. Worrall [5] led to the identification of the following features:

- the crimes committed by women were explained as being influenced by biological rather than by social or economic factors;

- the representation of the reasons and circumstances of the crime were not wrong or distorted;

- the sexual deviance (which can take a wide range, from broken hymen to "immorality" or prostitution) were included in the criminal act.

In this early stage of criminological research, scientists have launched hypotheses and theories related to the "separate spheres" [6], which were found in laws, legal practices and research. The separate spheres include a set of ideas about the place of men and women in the existing social order, in the first quarter of the nineteenth century, both in Europe and in other capitalist countries undergoing industrialization. The ideology of "separate spheres" placed men in the public sphere (paid work, politics) and women in the private sphere (household, family).

The division into "public sphere"/private dichotomy and man/woman also had repercussions in the legal area, without being taken aback by the fact that the US law since the mid nineteenth century gave the man a boundless power: "The Husband and the wife are one person. This person is the Husband".

Regarding Romanian feminism, "historical documents testify that the legal status of women was humiliating, under human dignity. According to the tradition, as far as marriage is concerned, the man was the master. Vasile Lupu and Matei Basarab's Code of Laws provide that "the man was allowed to seize and beat his wife if she did something wrong, but not too violently" [7].

Initially, women have accepted this division of separate spheres, because, being the "moral guardian" of the house, they could influence and control the actions of men, in general, and of their husbands, in particular. They have become the moral guardians of their spouses, which can be seen from their philanthropic actions (American Army Salvation). In turn, the man played the role of father, husband and paid employee, which granted him the status of creator and formal arbitrator of morality and culture.

The opportunity of the Romanian feminist movement is primarily given by the female

lower normative status, which entails the change of laws. This tradition also continued in the dawn of modernity, after the Revolution of 1848, i.e. in 1866, in the context of the Romanian Civil Code of Napoleonic influence. This Code incapacitated women economically and socially and made them universally unfit. In line with minors and idiots, any act concluded by a woman needed her husband's consent or the approval of the judiciary; the woman could not depend on her own income, she would lose her nationality if she married a foreigner, she could not become guardian, she had to remain at the domicile established by her husband.

According to Frida Adler, the abolition of the restrictions on female behavior enables them to behave like men, including being violent, greedy and prone to committing crimes. Adler has been criticized for the mistake of mentioning the relationship between women emancipation and the increase in the number of women offenders. Adler assumed that low-income women seek to obtain, in some way, equality with their male partners, and the offense became, thus, a desirable occupation.

Rita Simon had a point of view closer to reality, interpreting the statistical data more accurately. Because she did not find changes in the number of women arrested for committing violent crimes, she concluded that the increasing number of the women arrested for crimes against property (especially theft, embezzlement and fraud) [8] can be explained by the increasing opportunities to commit crimes, opportunities which women have at work (or in the public sphere). Moreover, Simon questioned whether the ideology of the equality between men and women could lead to a greater interest from the police and the courts to treat women like men equally.

The criticisms brought to Rita Simon concluded that the opportunities generated by the new jobs, for some women, without increasing their economic level, will increase the number of crimes committed by them. The debate on women empowerment [9] and crime have not been fruitful, but persisted over time, and the questions raised are important for criminology.

The period of 1975-1985 was characterized by the development of

important studies on the characteristics of crimes committed by women and their treatment in the criminal justice system and juvenile delinquency, many of them trying to explain, in a book, all that was known about women offenders and the offenses committed by them [10].

A new phase of research on women offenders, on their victims and on the offenses committed by them became the object of criminological research in the mid-1970s: women victims or criminals, men who raped and aggressed their wives and partners, other forms of family violence and sexual abuse [11]. These new types of offenses and offenders diverted the criminologists' interest, which was traditionally focused on the delinquency of boys with low income or of the homeless, thereby inverting the traditional criminological models [12].

Smith and Paternostern took into account the gender differences in crime rates and suggested that the volume of crime may reflect "the different exposure to 'the factors influencing the delinquent behavior of both MEN and WOMEN."

Many feminist criminologists tend to bring together the issues raised by the theory of generality and of the gender rate. Moreover, they were not impressed by the theoretical arguments entailed by doubtful evidence, which have little understanding of the realities of women or men [13].

It is noted that the feminist movement has had an important role for the inclusion of women in various studies, namely criminology. Feminist research should be applied to all areas studied by criminology (crime, criminal, victim and social control). Of course, in retrospect, one can see some improvement on the status of women in society.

From a statistical perspective, regardless of age, race, social class or nationality, men are more involved in crimes, especially in crimes of serious nature. It is very important to focus on gender and, moreover, on the gender differences between men and women.

### **3. The etiology of female crime**

Referring to features of criminal behavior, it is noteworthy, from the very beginning, that this is a complex phenomenon, including multiple dimensions such as: statistical,

juridical, sociological, psychological, economic, welfare services, prospective and cultural dimensions. The review of these dimensions attest the interdisciplinary nature of the crime phenomenon, which makes it extremely difficult to approach and study all the offenses produced within a society and their causes, requiring the need to involve experts from various fields: sociology, law, social work psychology, medicine, etc. [14]

From a multidisciplinary perspective, the etiology of female crime can be studied both as an individual act and as a social phenomenon, these two areas being interspersed, and, at the same time, maintaining a relative independence. The influence of the external factors in the formation of the female delinquent personality can be explained by examining the types of environments outlined by Etienne de Greef's theory, still current and useful in explaining the etiology of male, female or juvenile crime.

The ineluctable environment is composed of the family environment (of origin), the habitat and the neighborhood without which one cannot conceive the existence of an individual. The family environment is the environment where the child begins to carry out socialization activities and his/her development is strongly influenced by the relationships established with other family members. The tendency of the young child and, then, of the young to imitate the behavior of family members is strong enough, and the changes in the family life (child abandonment, death of a parent, lack of affection, divorce, quarrels between parents, excessive indulgence or severity from parents) may be particularly relevant to that person's destiny [15].

The entourage or the casual environment represents the first social contact that a person has, the first external environment where the child is forced to adapt himself/herself, in accordance with the rules of conduct, and where sanctions are imposed by an authority other than the family [16].

The authors of social or criminological studies define the chosen or accepted environment as the personal environment including the dwelling, the home and the couple's life, the professional environment, represented by the workplace or by the place where one's profession is exercised, and the

extra-professional environment, i.e. the places frequented during one's free time. The imposed environment is represented by specially arranged places, under the administration of state institutions, where the persons who committed offenses of a certain severity are forcibly kept: preventive arrests, prisons and rehabilitation centers.

Gina Lombroso argued that the woman is altruistic, or alter-centrist, and that the man is selfish or self-centered. According to Gina Lombroso, the woman is characterized, in particular, by intuition and passion, and the man - by reason and indifference. The woman's intelligence is the same as that of the man, except for the differences arising from maternity. The specific features of feminine intelligence are intuition, spirit of observation and insight by which she can grow and train much easier than the man does. On the other hand, the woman assimilates harder the science, being inferior to man as far as it concerns the ability of abstraction and awareness of scientific conventions [17].

Among male traits, there are usually mentioned: independence, rationality, aggression, objectivity, self-confidence, spirit of competition, analytic skills, strength, ambition, self-assertion, etc. Among female traits, there are: addiction, emotion, gentleness, subjectivity, need of protection, fear of not harming the others, sensitivity in context, weakness, tact, care for others, etc.

#### **4. The first explanation of female criminality**

The period between the end of the Middle Ages and the early Renaissance is described by Ruggiero as a period of alternation between tolerance and criminalization of prostitution, the main manifestation of deviant acts among women [18]. Later, however, the same municipalities that had tolerated prostitution for more than a century closed brothels and turned prostitution acts from eventually civil cases into criminal cases.

The history of adultery is the typical history of the double standard [19]; it tolerates the act, as far as it concerns the man, and completely prohibits it, as far as it concerns the woman who had to remain faithful to her husband, to death, no matter

what [20].

In the past, the "Code of Hammurabi", provided for a series of penalties for sexual offenses. Thus, the adultery committed by the married woman was punished by drowning both the guilty woman and her lover. In other cultures, the husband was allowed to kill them both if he had caught them during sex, and he was treated with clemency by the community, and he was even forgiven sometimes. In ancient Egypt, the adultery was considered as "the greatest crime" and both partners were sentenced to death, the woman being burned alive and the lover being thrown to the crocodiles. In ancient Greece, the law provided only for the wife's fidelity (and not for the husband's fidelity). We can see that men enjoyed more rights than women in matters of sexuality. The Germans, Franks and Vikings widely practiced polygamy and, thus, the concept of adultery was unknown.

The inequalities between the two sexes, seen both in political, economic, religious and social terms, made women feel a pressing need to emancipate, to rise on the same level as, or even above, men, which led to several attempts to prove this by way of violence against them.

The woman killer, according to Cesare Lombroso, is different from the man killer [21]. The twentieth century brought, for the first time, in 1950, a volume entirely dedicated to female criminality, written by an American author, Otto Pollack, who summarized and interpreted the previous writings from a book entitled "The Criminality of Women". Pollack discussed two aspects about the differences between male and female crime rates: the first would be that the offenses committed by women are underestimated, also because their victims rarely complain: children are incapable of this and men are afraid of not falling into ridicule. A second hypothesis relates to the female natural ability to lie and deceive, developed and practiced during intercourse [22].

In one of her works, Gisela Konopka describes the woman as a crime instigator [23]. In her opinion, women often commit crimes due to emotional problems, stemming, in particular, from loneliness and sexuality.

Other modern biological theories identify the premenstrual syndrome as a cause due to

which women are overly violent and/or criminal. A. Walsh [24] reviewed several studies showing that 62% of the violent crimes committed by women take place four days before and four days after menstruation. Criticism refers to the fact that the data are typical of the female prison population and the real PMS, known as the "madness of lactation", affects only a small percentage of women.

## 5. Conclusion

Biological and psychological characteristics, gender stereotypes, the economic, social, political characteristics of the communities where they live and work, and the violence against women are factors influencing female crime. To these there are added other risk factors, including drug and alcohol, many convicted women saying that they were under their influence when they committed offenses.

In addition, the correlation between delinquency and the degree of training and education cannot be neglected. Reduced schooling, the precarious level of knowledge determines pronounced educational gaps, leading, thus, to crime. Researching the statistics of the period 2000-2014, we have seen that the vast majority of those who have committed criminal acts had only primary and secondary education, some had high school education and very few had higher education studies.

Thus, a low degree of training may be a consequence of crime, influencing both women and men.

Adding the psychological aspects, many offenders have suffered physical and mental trauma, sexual abuse, or all together, hence the conclusion that this suffering could be other causes for the emergence of the criminal desire, seeking revenge or the feeling of being stronger. Moreover, these issues can be strongly impregnated in one's consciousness if trauma was suffered before attaining majority, in the adolescent period of personality formation.

Therefore, the study of female crime aims at preventing and controlling this phenomenon, by developing criminal policy measures that take into account the specific features of female nature.

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## Criminological Approaches on Tax Evasion

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### Abstract

*The emergence of tax evasion is linked to the very genesis of society, because evasion is a social phenomenon that was born and then evolved along with social evolution. As a negative feature of any human society, tax evasion and its forms of expression are found in every society and in every form of power organization. The existence of tax evasion is an undeniable phenomenon and its negative consequences are strongly evident; therefore, it must be prevented and countered by effective measures that respond to the complex nature of the phenomenon.*

**Keywords:** crime, tax evasion, tax, taxpayer  
**J.E.L. classification:** K3

### 1. Introduction

Tax evasion includes all tax evasion facts and their forms of expression, existing at a time, within a society. The effectiveness of countermeasures involves a thorough knowledge of the concrete forms of this phenomenon. If tax evasion is not known in all its facets, prevention, and especially the fight against this phenomenon, cannot be achieved effectively.

In recent times, especially in the context of the financial crisis, tax evasion plays a special role in modern political states. In our country, tax evasion took a special scale, especially in the years following the Revolution of December 1989, and it negatively affected the evolution of the society as a whole and, in particular, the economic environment.

Practice has proved that tax evasion is achieved by increasingly ingenious methods, used by the taxpayers who seek to circumvent tax obligations. These practices led the Romanian state to give priority to the measures for combating and preventing tax

evasion.

From a sociological perspective, tax evasion is a complex phenomenon that includes unethical and illegal actions of natural or legal persons, in order to achieve material benefits. Tax evasion is a social phenomenon whose proliferation decreases the overall level of the living standard since the resources of this phenomenon should be reflected in public funds or in the income that supplies the State's general budget. From a strictly sociological perspective, tax evasion can be defined as all those individual or collective practices, whereby pecuniary benefits are unlawfully obtained, contrary to the tax rules laid down by the society, to the detriment of the general social interest.

In political-administrative terms, tax evasion within the Romanian society is generated by the fact that the legislation adopted in order to prevent and combat this phenomenon have not complied with the rules on legislative techniques and lacked transparency regarding the organization and functioning of public institutions. The rigid bureaucracy of the fiscal system favors and generates tax evasion because the taxpayer seeks a prompt and reasonable resolution of his/her fiscal problems.

In economic terms, the proliferation of tax evasion is caused by everyone's aspiration to improve his or her living standards. Thus, the taxpayer examines the legal options, but also the illicit ones, in order to secure a higher standard of living.

From a cultural standpoint, there are cases where some states consider that tax evasion is not an offense and, therefore, they do not sanction it as such; however, there are also states which consider tax evasion as a serious deviation from the rules of ethics and social conduct. The cultural concepts regarding the punishment of tax evasion differ from one state to another.

In criminological terms, tax evasion involves a behavior deviant from the social

and fiscal standards. From a criminological perspective, tax evasion is a broader concept as it includes any behavior affecting law and morality.

From the legal perspective, tax evasion is determined primarily by the lack of legislative stability, due to the relatively frequent changes to the legislation on preventing and combating tax evasion.

Tax evasion is one of the phenomena analyzed both by practitioners and by theorists. However, in spite of everything that is written about the causes, methods, extent, control or penalties related to tax evasion, the words designating this phenomenon are unclear, and its area is uncertain" [1]. In order to understand the meaning of this notion, it is necessary to know the correlation between tax fraud and tax evasion.

In the literature, it is stated that: "when talking about fraud, we discuss as much about legal or legitimate fraud, about illegal fraud, international evasion, legal evasion, illegal evasion, tax havens or shelters. We discuss about the abuse of the right to escape taxes, the freedom of choosing the path of the least taxed or tax understatement, the legal fraud or the underground economy" [2].

On the other hand, tax evasion is defined as all legal and illegal methods by which those interested circumvent, in whole or in part, their wealth, from the requirements set by fiscal laws [3].

Thus, the legal tax evasion is considering, in principle, the interpretation and speculation of several incomplete legal provisions; in its turn, the illegal tax evasion consists in the concealment, reduction, withdrawal of the taxable amount or in the use of other means to circumvent legal provisions in order to avoid the payments due to the state, by the taxpayer. The main causes of the escalating tax evasion are the excessive tax liabilities and the taxpayers' fiscal educational gaps.

In Romania, the underground economy is strong because it is determined by the phenomenon of crime in the economic and financial dimension (dirty money), a phenomenon characterized by a very high level of "financial engineering" made in the area of privatization, investment, financial-banking institutions and the use of public funds. Thus, effective tools are triggered for the conversion and diversion of capital flows

in order to remove it from the licit financial circuit [4].

The major causes of the underground economy and, implicitly, of tax evasion, are divided into the following categories:

- the increasing fiscal pressure by the government (according to Swiss bankers, tax havens would not exist if states would not increase taxes);

- the excessive regulations applied by the authorities in trading, fiscal, banking, financial fields, resulting in the amplification of prohibitions, triggering, thus, the emergence of new opportunities for fraud and evasion;

- drug prohibition, the prohibition of the sale of weapons, usury;

- corruption, which manifests itself in all economies and which consists in giving money in order to obtain public contracts in the field of customs, building and planning permits, investment licenses, etc.[5].

The criminological concepts regarding the causes leading to the emergence and development of economic and financial crime should be included in the analysis of the causes of the underground economy simply because this phenomenon (i.e. economic and financial crime) is the "core of the underground economy" [6]. In this context, there are two main causes of the emergence and development of the underground economy and, consequently, of the emergence and development of fiscal evasion [7]: too high taxation levels and excessive and bureaucratic rigidity of the regulations and controls at the level of public administration representatives.

Excessive taxation, coupled with the absence of policies to encourage investments can lead to the emergence of some practices that bypass the budgetary obligations, as defense reactions against an unfriendly political and economic environment.

## 2. The forms of tax evasion

We can talk about tax evasion at national and international levels.

Tax evasion at national level. As regards the national tax evasion, the Romanian doctrine distinguishes between lawful or legal tax evasion and unlawful or illegal tax evasion. This distinction has emerged since the early twentieth century, and tax evasion

in the interwar period was defined as a set of "licit and illicit" methods [8].

Legal evasion was defined as "the taxpayer's action to circumvent the law, using a combination unforeseen by the legislator and, therefore, tolerated by lost of sight" [9]. In another definition, the lawful tax evasion was considered "the way in which the taxpayer seeks to place himself/herself in a more favorable position, in order to benefit, to a greater extent, from the advantages of the tax regulations in force" [10].

Specifically, the taxpayer complies with the statutory tax provisions but takes advantage of some incomplete provisions and thus obtains a tax regime favorable to him/her. The consequence of these legal shortcomings and of the taxpayer's practice is the avoidance of the payment of tax obligations to the general consolidated budget. Tax avoidance can occur by three ways [11]:

- exploiting tax legislation gaps;
- the taxpayer's restraint from exercising taxable activities;
- situations where the law itself provides the tax evasion framework by creating a favor tax system.

In case of legal tax evasion, the taxpayer acts with the intent to circumvent the law in tax matters, but his/her actions are reflected in the intelligent exploitation of contradictory, ambiguous, inconsistent laws, in his/her favor, with the result of avoiding the payment of tax obligations. The inconsistency, ambiguity and contradictions in the wording of the law on tax matters are speculated to the detriment of the public interest, due to the legislator's poor training, or due to his/her own "interests". The analysis of the national tax legislation reveals the following methods of legal tax evasion:

- purchasing goods wherefore the state provides facilities, by investing a part of the profit in order to avoid the payment of the income tax, although the goods do not have the utility pursued by the legislator;
- using sponsorship and/ or donations to avoid the taxation of some part of the income;
- increasing the deductible expenses by using 2% of the income as protocol expenditures, although this percentage is not economically justified.

Regarding the illegal tax evasion, this

implies the violation of tax laws, in order to avoid the payment of the tax obligations due to the consolidated state budget. "The illegal tax evasion is the only form of proper tax evasion, because only it violates the provisions of the tax law" [12].

Law 241/2005 criminalizes both proper tax evasion offenses (art. 9, letter a to g) and criminal offenses related to tax evasion (art. 3 – 8).

Tax evasion at international level. The international economic situation sees the international tax evasion as a consequence of the excessive taxation at the national level and of the double taxation arising from the autonomy of national tax regulations. The national context causes the taxpayer "either to identify the most favorable tax regimes that allow hiding the taxable items or to seek solutions in order to avoid two distinct taxes in areas better protected in terms of taxation" [13].

International tax evasion is achieved in most cases through tax havens that are "true territorial enclaves benefiting from customs extraterritoriality and coming out of the scope of national laws" [14].

In the literature, it is stated that international tax evasion is achieved by two means [15]:

- abstinence, embodied in the taxpayer's fiscal inaction, nationally, through high tax burden. Thus, the taxpayer avoids producing, investing in his country, aiming to protect his/her business by transferring it in low tax areas.
- concealment of taxable items, by hiding the income or the assets that the taxpayer had accumulated outside the national tax system, providing the IRS with incorrect information about them.

### 3. Effects of tax evasion

A. The effects of tax evasion on state revenues. The direct and immediate consequence of tax evasion on the formation of state revenues is reflected in *their mitigation*.

Together with the decrease in state revenues, we also discover the existence of a reduced state budget that is unable to meet the demands for state financial funds necessary to the State in order fulfill its basic functions. Given the sometimes acute lack of

financial funds, the state took immediate measures consisting in the increase of the tax rates on the existing taxes and in the application of new taxes.

The increase in taxes triggers the increase in fiscal pressure and the increase in the resistance to taxation, which is reflected in increased tax evasion. It is thus produced a vicious circle where the increasing tax evasion leads to a sharp decrease of state revenues. The influence of tax evasion on state revenues occurs in two ways:

- directly, by stealing a portion of the revenues due to the state budget, under current tax laws;
- indirectly, through executive measures taken in order to increase taxes and to increase, implicitly, the tax burden.

Therefore, the essential components of a balanced state budget are the payment of the taxes and duties established by tax laws and the dates on which they are paid.

B. The economic effects of tax evasion. The economic effects of tax evasion should be viewed in direct connection with the tax evasion influence on the reduction of state budget revenues. The economic effects of tax evasion can be divided into two categories:

- effects on the taxpayer who complies with tax laws;
- effects on the taxpayer who violates tax laws.

The increase in taxes and duties, i.e. the increase in taxation, triggers a corresponding decrease in the taxpayers' (legal or natural persons) revenues, for their own consumption. Specifically, after paying taxes and duties, the taxpayers' income is greatly diminished and this does not provide them the opportunity to reinvest and to increase their capital.

However, the state should give consistency to the measures taken in order to subsidize and support those who need them. Given that tax evasion is growing and the state budget revenues decrease, the state is unable to meet its obligations triggered by social programs and social support.

Due to the non-receipt of such subsidies, many taxpayers are in the position of diminishing or even ceasing their activity, assuming a fiscal risk in their business processes. The economic consequence resides in the production of serious economic imbalances. Any increase in the volume of

investments in production and in the operations that trigger taxes results in the increase in the tax burden and, therefore, in the fiscal risk incurred by any taxpayer. In these circumstances, the taxpayer will seek to reduce this risk by any means and, therefore, to reduce the tendency to make great productive and risky investments.

When this way of lowering the taxes to be paid is not possible, the taxpayer resorts to the concealment of a taxable part of his/her income or assets. The development of the underground economy includes the increase in the tax evasion share.

C. The social effects of tax evasion. *Social inequity* is the essential social effect of tax evasion. Social inequity can also be determined by the state policy focused more on granting incentives to foreign investors at the expense of local investors, given that, internationally, the policy for protecting local investors is promoted. Social inequity can generate, in turn, a dramatic decrease in the taxpayers' trust in government and politics.

D. The political effects of tax evasion. The political effects of tax evasion are manifested by the citizen's (as taxpayer) increasing mistrust in politicians and, especially, in those who are in power and who, during their rule, promoted policies that have generated social inequity and unequal economic conditions for different categories of taxpayers.

#### 4. Conclusion

It is undeniable that tax evasion is part of the market economy, and that its eradication is practically impossible. The negative effects of this phenomenon have repercussions on national and international economy, as well as on the society as a whole.

The procedures that the taxpayer identifies, in order to circumvent tax laws, are the result of numerous tax obligations required under the law. This is because the taxation measures set by the state affect one of the most important interests of taxpayers, namely *the monetary interest*. In this context, the state and the taxpayer should be regarded as two players who have common goals. The taxpayer's purpose is to ensure financial stability and to earn consistent income, whereas the state's purpose is to ensure a balanced budget by obtaining amounts of

money, as large as possible, from taxpayers [16].

Currently, all state institutions have focused their efforts to reduce tax evasion, especially in 2010 when, amid the deepening economic crisis, it was found that tax evasion has become a national security issue, requiring the convening of the Supreme Defense Council in order to establish measures to combat this phenomenon.

Some of the problems faced when fighting tax evasion have been solved by the entry into force of Law 241/2005 on preventing and combating tax evasion. However, tax laws, as a whole, and Law 241/2005, in particular, do not provide a legislative framework free of inaccuracies and provisions that leave room for interpretation.

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## The Relationship between Intergenerational Justice Index and Human Development Index

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### Abstract

*Our present study proposes to debate the problem of intergenerational justice and also, we try to measure how strong the correlation between Intergenerational Justice Index (IJI) and Human Development Index (HDI) is. Our interest is to see if the states with highest human development would guarantee a high intergenerational justice degree and, at the same time, if a high intergenerational justice determines a higher level of human development. Using a nonparametric correlation for 29 states of OECD, we find that a weak correlation exists between these two indices and we can conclude that a high level of human development is not determined by a high level of intergenerational justice or that a high level of intergenerational justice is not conditioned by a high level of human development.*

**Keywords:** intergenerational justice, human development, nonparametric correlation

**J.E.L. Classification:** A13, O10, O15

### 1. Introduction

Intergenerational justice is a key concept within theories and discussions of social justice and many researchers are preoccupied by this problem.

When we talk about intergenerational justice we must consider the following aspects. The first is that when we put the problem of resources conservation, we need to plan their secular, but without this meaning a sacrifice for the present generation. The second aspect is that each generation has its own cultural and social matrix, becoming itself a unique resource.

Finally, the right to existence for future generations is one that comes from God.[4]

”A society is intergenerationally just when each generation does its fair share to enable members of succeeding generations, both inside and outside its borders, to satisfy their needs, to avoid serious harm and to have the opportunity to enjoy things of value.” [7] In agreement with this definition, we could to think of ourselves as belonging to an intergenerational continuum that stretches indefinitely into the future. In this way, the definition extends the society forward and backward in time.

Barry (1977) takes into discussion the fact that the present generation can exercise its power over future generations by creating conditions that become costly for next generation. In this way, the present generation effectively manipulates the interests of future generations, while the last category cannot exercise such an influence on contemporary living people. Actually, the relation is asymmetrical and the future generation is in disadvantage. [2]

The present generation can pursue a natural-resource policy with long-term negative consequences, as another way to exercise the power and to harm the future generation. At the same time, it is possible that future generations have access to the technologies that allow them to adapt to the circumstances. In contrast, the future people cannot at all affect the value of the lives of the presently living in this sense. [3]

Rawls also brings into discussion the problem of intergenerational justice. He argues that the main duty owed to our successors is the saving of sufficient material capital to maintain just institutions over time. He thinks that intergenerational justice significantly constrains the level of benefits that should be allotted in any single generation. Justice requires that we not spend

down all accumulated capital and wealth, but that we pass along resources to future generations. [5]

It is worth mentioning the fact that in order to reduce social injustice all the countries need to continue to invest more in education, training, trade-adjustment assistance, health care, community development and tax policy. The role of the state in promoting development has increased in the last decades, and there is a need to reflect on how this role can be effectively articulated. [1]

The intergenerational justice and its effects are a matter, especially for aging societies. Often, the policy makers put the interests of older generations against those of younger generations, as long as the first category brings votes. In this context it is absolutely necessary to remove existing imbalances and their associated needs if we want to reach a higher degree of human development.

## 2. Measuring the intergenerational justice

As indicator which measures the intergenerational justice we chose a synthetic index, named Intergenerational Justice Index (IJI), developed in a study about intergenerational justice in aging society [8]. The IJI take into discussion two major aspects of intergenerational justice. First, it is about the outcomes that the older people leave legacies to the younger. This is how the discrimination appears. Second, the IJI tries to capture the possibilities by which the policy makers are biased toward older generation.

In this study, presented by Pieter Vanhuyse, the intergenerational justice is measured for 29 OECD countries and it is viewed from multiple perspectives, taking into consideration important environmental, economic-fiscal and social aspects of this highly complex subject. We cannot talk about the problem of intergenerational justice outside the framework provided by sustainability. So, it is obvious, that all the aspects measured and included in IJI are derived from a set of clearly identifiable indicators addressing the three core principles of sustainability.

The four IJI dimensions included in the composite index are ecological footprint,

child poverty, debt per child and the elderly-bias indicator of social spending (*EBiSS*). The last dimension, (*EBiSS*), is rooted in accelerated population aging especially for OECD countries, as a result of longer life spans and lower fertility rates. So, the electorate became older and it is possible that the policy maker favours this category to get as many votes, at the expense of assuring the intergenerational justice.

In terms of the environmental dimension of IJI the ecological footprint was used, which compares human demands from nature with the biosphere's ability to regenerate resources and provide services. It is measured in “global hectares” and it captures in a single figure the general state of human dependency on nature, or alternatively, the pressure put by human societies on their natural environment. For the OECD countries in the study, in the year 2008, we notice that the biggest environmental pressure was recorded for Denmark, following by United States and Belgium. By contrast, the countries with the lowest values of the indicator are Hungary, Poland, Israel, Portugal, Japan and New Zealand. Only seven of 29 OECD nations had an ecological surplus in 2008, which is given by the biocapacity of a country to exceed its ecological footprint. It is about the countries with a large land mass and with a low population density, like Canada or Australia. The other countries recorded a net deficit because the ecological footprint exceeds the biocapacity.

For the social dimension of IJI the indicator named child poverty was used, this because child poverty can create a legacy with problems for decades into poor children's future. For 2011, it was found that in United States more than 21 per cent of children lived in poverty, followed by Southern European countries such as Portugal, Spain and Italy, as well as Israel and Canada. The countries under study with the lowest values for child poverty were the Nordic countries and Slovenia.

The economic dimension is highlighted by public debt rates per child, an indicator that recorded permanent increases in recent decades. It is interesting to note that variance in debt per child within the OECD is very large. For example, the off-the-scale outlier is Japan, where each person aged below 15

faced an outstanding amount of government debt of \$794,000 in 2011. Estonia is at the opposite side, because it currently saddles its youngest generation with a government debt less than \$6,500 per child. Other examples are Italy and Greece which occupied the next two ranks with around \$310,000 to \$300,000 in debt per child, after Japan.

To calculate the IJI, the values for  $X_{ni}$  were normalized. We specify that  $X$  is the dimension for each country  $i$ ,  $X_{max}$  is the maximum performance in the entire OECD sample,  $X_i$  is the actual performance of country and the formula for normalizing can be expressed as:

$$X_{ni} = \frac{X_{max} - X_i}{X_{max} - X_{min}}$$

The numerator is given by the difference between the maximum sample value and the value achieved by the country under consideration and the denominator is given by the difference between the maximum value and the minimum value in the sample country set. This implies that a better relative performance is associated with a higher value, with each  $X_{ni}$  value varying between 0 and 1. After normalization, the indicator was aggregated following researcher-imposed weights: 0.2 for child poverty, 0.2 for net ecological surplus, 0.2 for debt per child and 0.4 for *EBiSS*.

The results show us that the most intergenerationally just countries are, in order, Estonia, South Korea and New Zealand, followed by Norway, Israel, and Sweden. The five least intergenerationally just countries are Japan, the United States, Poland, Greece and Italy.

### 3. The nonparametric correlation between IJI and HDI

Spearman’s Rank correlation coefficient is used to identify and test the strength of a relationship between two sets of data. It is assumed that the variables under consideration were measured on at least an ordinal (rank order) scale, that is, that the individual observations can be ranked into two ordered series. [6]

The Spearman correlation takes values between -1 and +1, the difference is that it quantifies the extent to which the variables

tend to increase or decrease together, i.e. the extent to which one variable tends to increase as the other increases. A value of zero indicates no such tendency.

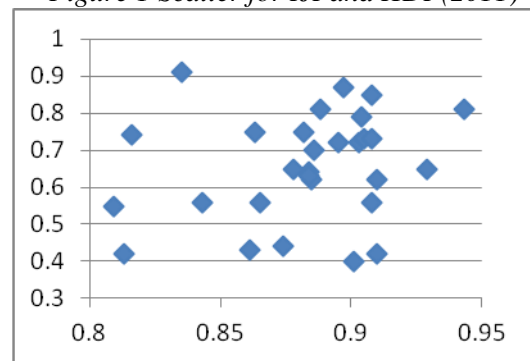
The equation is:

$$r_s = 1 - \frac{6 \sum d_i^2}{n(n^2 - 1)}$$

where  $d_i$  = the difference between the ranks of corresponding values  $X_i$  and  $Y_i$  and  $n$  is the number of observations.

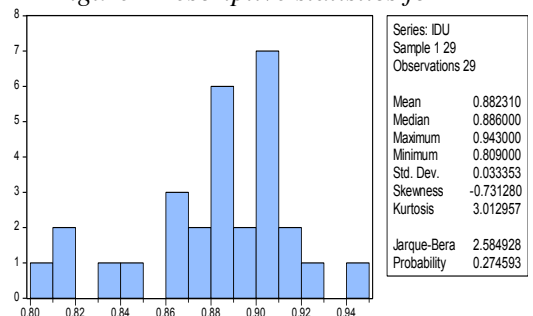
For effect size, Cohen’s standard will be used to evaluate the correlation coefficient to determine the strength of the relationship, or the effect size, where coefficients between 0.10 and 0.29 represent a small association; coefficients between 0.30 and 0.49 represent a medium association; and coefficients above 0.50 represent a large associate or relationship.

Figure 1 Scatter for IJI and HDI (2011)



So, we put in correlation the intergenerational justice index (IJI) and human development index (HDI), for a sample to 29 OECD countries, using nonparametric correlation. For HDI we used the values for 2011, because most indicators which composed IJI have as reference also the year 2011. The value for  $r_s$  is 0.195977, which indicates us a weak correlation between variables.

Figure2 Descriptive statistics for HDI





#### 4. Conclusions

We found that a weak correlation exists between these Intergenerational Justice Index and Human Development Index. Therefore, we can conclude that a high level of human development is not determined by a high level of intergenerational justice or that a high level of intergenerational justice is not conditioned by a high level for human development.

Consequently, we consider that a real human development cannot be done without ensuring economic justice, in general, and intergenerational justice in particular. The intergenerational equity must become integral to international law dealing with environmental protection, resource utilization and socio-economic development. We also mentioned that in the states where the population is aging, the policy makers are tempted to take measures to support the older people or to spend more money for them.

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## An Empirical Measure for Economic Justice

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### Abstract

*In our research we debate the problem of economic justice in relationship with human development and sustainability. Economic justice is a term that encompasses both a set of values and the policies used to promote these values. The obvious content of economic justice is the enhancement of the welfare of individuals, groups, and nations within national and international and intra- and inter-generational contexts.*

*In this context, ensuring the economic justice is considered as a motivating factor to achieve a high level of human development, a factor that shows us that the desideratum of sustainability could be reached. We also bring as argument the opportunity of developing a composite indicator for measuring economic justice. This offers a much better overview on the required distance of achieving the goals of development, for ensuring the social peace and equity for all the people.*

**Keywords:** economic justice, human development, composite indicator

**J.E.L. Classification:** A13, O10, O15

### 1. Introduction

The research theme brings into attention some fundamental aspects such as the economic justice in relationship with human development and sustainability. In this approach we take into consideration a way to identify and develop a composite indicator for measuring the level of economic justice. We will also highlight the recorded gaps for the countries in this domain. Simultaneously, we debate the fairness of some actions that promote human development and reduce the inequality in the areas as income, wealth distribution and consumption.

Economic justice is the answer to the question “who should have what?”. Where is economic injustice, is more than likely to meet unjustified privileges, exploitative wages, arbitrary taxes, other kinds of inequalities and also historical events such as rebellions, revolutions or worse than previously - wars. In this context, we can consider that economic justice could be a proposal for a free and peaceful society.

The economic justice, as an important part of social justice, encompasses the moral principles which show a better way for defining the economic institutions. These institutions determine how each person earns a living, enters into contracts, exchanges goods and services with others and otherwise produces an independent material foundation for his or her economic sustenance. The ultimate purpose of economic justice is to free each person to engage creatively in the unlimited work beyond economics, that of the mind and the spirit. [5]

Even if we are generally concerned with economic inequality only, in a specific context, we will consider that the historical nature of the notion of inequality is worth, bearing in mind before going into an analysis of economic inequality as it is viewed by economists today. [1]

### 2. The issue of economic justice

We are taking into discussion the issues of economic justice and human development in a world that is marked, on the one hand, by enormous inequalities in contemporary living conditions, and on the other, by real threats to the prospects of human life in the future.

The economic justice, defined as the existence of opportunities for meaningful work and employment and the dispensation of fair rewards for the productive activities of individuals. These are generally treated as an aspect of social justice. To acknowledge the necessity of viewing economic justice as an

element of social justice is, again, to investigate for a social perspective on human affairs.

The social and economic justice is researched by many authors. Among them is Rawls with his noteworthy book “A Theory of Justice”. The author requires the reader to envision a society of free citizens holding equal basic rights, which cooperate within an egalitarian economic system. Starting from these, he debated the “justice as fairness” and he submitted two main criteria for fairness: the first criterion is equal basic rights and liberties and the second is a principle of economic justice which involves fair equality of opportunities and the mutual economic benefits of all groups. Known as the difference principle, the last principle is the most controversial problem and in the author’s view, this means to assume a continuing conscientious efforts achieving fair equality of opportunity, it requires mutual benefit, in the prospects of the various income groups. [7]

Rawls’ first principle of justice covers liberty, and he argues that, once a certain level of material well-being is secured, it should always take priority over the second principle regarding distributive justice. So, liberty is more important than the distribution of social and economic inequalities.

Also, the distribution of property is brought into attention by Nozick. He considers that the property rights are important because they derive from ‘self-ownership’. A person has a right to what they produce, because they own their labour, which they invest in creating the product. The philosopher argues that justice involves three ideas. First is the justice in acquisition, which refers to how you first acquire property rights over something that has not previously been owned. The second is justice in transfer, which is about how you acquire property rights over something that has been transferred. The last one is the rectification of injustice, which debates the issue of restoring something to its rightful owner, in case of injustice in either acquisition or transfer. [6] [4]

Consequently, the recent political philosophers, such as John Rawls, Robert Nozick or Amartya Sen treat the terms of “social justice” and “distributive justice” as synonyms. Contrary, other philosophers

approach differently the two above mentioned concepts. They consider that the “distributive justice” represents only the economic dimension of social justice and it is not the pure social justice. Therefore, they argue that the problem of justice or injustice is also considering other social goods than the economic goods.

When we bring into question the problem of economic justice, we must take into consideration the different aggregation levels. When we refer to persons, reasons, circumstances or goods, we talk about microjustice. At the macrojustice level, for example, are applied general rules to the allocation of the bulk of goods and resources. It is useful to take into consideration the domain of “mezojustice”, which refers to goods that are specific, but important and can concern everybody, such as education and health. Therefore, macrojustice is essentially concerned with the allocation of the value of productive capacities. In these conditions, people can have equal, full social liberty that implies free and unfettered labour and earning. When the macroeconomic justice is done, what remains raises issues of microjustice.[3]

The problem of economic and social justice is also revealed to the whole world through The Earth Charter, which is an international declaration of fundamental values and principles considered useful by its supporters for building a just, sustainable, and peaceful global society in the 21st century. It includes interdependent principles for a sustainable way of life as a common standard by which the conduct of all individuals, organizations, businesses, governments, and transnational institutions is to be guided and assessed. One of the four broad commitments refers to social and economic justice. For this the principles invoke the poverty eradication as an ethical, social, and environmental imperative; the ensuring that the economic activities and institutions at all levels promote human development in an equitable and sustainable manner; affirming gender equality and equity as prerequisites to sustainable development and ensure universal access to education, health care, and economic opportunity in addition to upholding the right of all, without discrimination, to a natural and social environment supportive of human dignity,

bodily health, and spiritual well-being, with special attention to the rights of indigenous peoples and minorities. [9]

### 3. Developing a composite indicator

Our approach aims to develop a composite indicator for measuring economic justice, which allows us to compare and rank country performance in this domain.

As OECD recommends us, we must go through certain steps, each equally important. We mention here the theoretical framework, data selection, imputation of missing data, multivariate analysis, normalisation, weighting and aggregation, uncertainty and sensitivity analysis etc. The strengths and weaknesses of composite indicators largely derive from the quality of the underlying variables. Ideally, variables should be selected on the basis of their relevance, analytical soundness, timeliness or accessibility. The quality and accuracy of composite indicators should evolve in parallel with improvements in data collection and indicator development. [8]

For the composite indicator which measures the economic justice, we will stop to the variables which measure the income inequality, the wealth distribution and the inequality in consumption, whether we refer to the consumption of economic goods or the consumption of resources.

The distribution of income and wealth in a market economy depends on a number of factors including the laws of inheritance, the distribution of innate talents, the availability of educational opportunities, social mobility, and the structure of markets.

When we talk about consumption and well-being, we mention the impartiality with respect to time. So, the well-being at one point in time should not count for more than well-being at another. These do not affect the case for discounting future consumption if consumption is expected to grow over time. [1]

Through the perspective of inequality, we will also analyse the effects and the pressure that consumption has on the environment.

In terms of normalisation, we intend to use Min-Max method. This normalises indicators to have an identical range [0, 1] by subtracting the minimum value and dividing by the range of the indicator values. We take

into account that the extreme values or outliers could distort the transformed indicator.

The equation is:

$$I_{qc}^t = \frac{x_{qc}^t - \min_c(x_q^{t_0})}{\max_c(x_q^{t_0}) - \min_c(x_q^{t_0})}$$

where  $x_{qc}^t$  is the value of indicator  $q$  for country  $c$  at time  $t$ .

In other words, the normalized values measure the distance from the lowest level of inequality on each dimension, relative to the empirical range in the sample.

If it is necessary, we will seek other ways for indicators normalization.

With reference to aggregation of indicators, most composite indicators rely on equal weighting, i.e. all variables are given the same weight. This essentially implies that all variables are “worth” the same in the composite, but it could also disguise the absence of a statistical or an empirical basis. Consequently, in our research the aggregation of the normalized indicator values will be performed according to the researcher imposed weights, considering the importance of each indicator to measure economic justice.

It remains the fact that rankings arising from composite indicators are dependent upon an initial weighting vector, and any given judgment could, in principle, be reversed if an alternative weighting vector was employed. [2]

### 4. Conclusions

The economic justice is not merely a concept of intuition or an issue of distribution of resources, including endowments. It is a concept grounded in both ethics and reason and has powerful philosophical foundations, as well as cost-benefit analysis justifications.

As we can see the connection between the ideal of sustainable human development and the economic justice is important to be explore. We will treat the economic justice through the multidimensional perspective, which will allow us to combine in various ways indicators of achievement in the dimensions of the phenomenon in question.

We recognize that the construction of a composite indicator is not a straightforward process, which involves assumptions which

have to be assessed carefully to avoid false results.

Even if year after year the number of composite indicators grows, their utility is sustained by the necessity to compare the country performance. Also, the composite indicators prove to be useful tools for policy makers and public communication. Sometimes, it provides simple comparisons between countries that can be used to illustrate complex issues in wide-ranging fields, e.g., environment, economy, society or technological development.

Ultimately, the relevance of our ideas on this subject must be judged by their ability to relate to the economic and political preoccupations of our times, in terms of ensuring economic justice according to human development and sustainability.

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## SMEs - The Main Promoters of the Knowledge based Economy

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### Abstract

*Large companies and institutions are still attached of the functional hierarchical organization. In small private firms and non-governmental organizations, managerial and professional practices based on knowledge are already present but still in experimental forms. The characteristics of the small companies are key assets for reshaping them according to the knowledge based economy requirements.*

*The shift to knowledge-based economy is an inevitable process, extremely complex and difficult generating for SMEs simultaneously numerous opportunities and threats. SMEs are those who assume some of the risks associated with this process, have the vision and stubbornness to succeed and to find the success formula. Small and medium enterprises are undoubtedly the "carriers" of knowledge, those who disseminate knowledge within the society and an engine of innovation.*

**Keywords:** SMEs, knowledge of the notions regarding the knowledge-based economy and organization within SMEs, innovation.

**JEL Classification:** D83

### 1. Introduction

The characteristics of the small companies are key assets for reshaping them according to the knowledge based economy requirements.

The low number of components, the small size of tangible assets, low complexity of the embedded activities, technical, economic, human and managerial structures relatively flexible, facilitates location in the forefront of concerns, decisions and actions of the company, the knowledge resource. Intense interpersonal relations, pronounced group cohesion, suppleness, flexibility and

dynamism are the defining elements of the knowledge-based economy and company, that can be found in small businesses.

High harmonization between the SMEs and the knowledge-based economy is highlighted also by the drivers of the creation and development of small and medium enterprises, which are in fact the characteristics of the knowledge based economy: technical and technological changes, computerization of the society and economy, outsourcing the organization activities.

### 2. Main features of the SMEs

SMEs are defined by the European Commission as: "the category of Micro, Small and Medium Enterprises (SMEs) made up of enterprises which employ fewer than 250 persons and which have an annual net turnover of up to 50 million euro and / or total assets up to 43 million euros." [1]

Thus, from this definition, the European Union fall into the SME category:

- the microenterprise - defined as the enterprise employing less than 10 persons and whose annual net turnover and / or total assets not exceeding 2 million;
- the small enterprise - defined as the enterprise employing less than 50 persons and whose annual net turnover and / or total assets not exceeding 10 million;
- medium enterprise - defined as the enterprise employing fewer than 250 persons and whose annual net turnover and / or do not exceed 50 million.

Small and medium enterprises have a number of defining features. The main features of small firms are: [2]

1. Orientation towards decentralized production and local markets - due to its small size, SME production is largely addressed to local markets. Thus, their ability to respond to local needs, the detailed information they hold on local markets,

SMEs act more effectively at the local level than larger firms within and outside of the village.

2. Manufacture of products and services for differentiated demand - relatively small size of the SMEs is a key factor of their specialization. The SMEs, due to their size and their relatively limited productive potential, can't make a wide range of products or services, being obliged to concentrate its activities in the production of homogenous goods or services in a narrow nomenclature.

3. The activities are based on the central role of the entrepreneur - one of the most important features of SMEs is centralizing the decision to the owner. In case of a small business, character, skills, competencies, attitudes and behaviors of entrepreneurs exerts a much stronger influence, even decisive, on the business.

4. Overlapping frequently the entrepreneur, owner and manager role - in small and medium enterprises, often the entrepreneur is in fact the owner and the manager in charge.

5. The exercise of participatory entrepreneurship.

6. Calling for cooperation strategies with other companies.

7. Involving in subcontracting processes of products and services.

8. The flexibility of the SMEs, especially of the small firms. The flexibility of SMEs lies in their ability to seize the opportunities offered by the market and adapt quickly to changes.

In practice, there are a variety of types of SMEs, generated by many factors involved in the survival of SMEs. Two known specialists - *Birley and Westhead* - have listed eight criteria according to which SMEs are classified, namely:[3]

- firm age;
- type of property;
- type of management;
- organizational structure;
- overall production;
- industry the company belongs;
- location of the company;
- profile of product / market relationship.

### **3. The knowledge of the notions regarding the knowledge-based economy and organization within SMEs**

The White Chart of SMEs in Romania 2014, presents an interesting study on the knowledge of the notions regarding the knowledge-based economy and organization within SMEs. The study showed that in 2013, 26.13% of the entrepreneurs know these concepts, and 73.87% do not know yet these notions. Compared with 2012, this indicator shows a positive trend, increasing by 6.25 pp. [4]

The study analyzes the knowledge of the notions regarding the knowledge-based economy and organization within SMEs by:

- SMEs age (under 5 years old, 5-10 years, 10-15 years, 15 years);
- regional affiliation of SMEs (northeast, southeast, south, southwest, northwest, center, Bucharest-Ilfov);
- SMEs size (micro, small, medium enterprises);
- legal form of organization (SA, SRL, other legal forms);
- branch in which SMEs operates (industry, construction, trade, tourism, transportation, services);
- level of training of entrepreneurs (primary, secondary and high studies).

Table no.1 shows the centralization of the results of the survey conducted by the National Council of Private Small and Medium Enterprises in Romania, and presented in the White Paper of SMEs in Romania in 2014, Bucharest, July 2014, pp. 170-173.

The table outlines the profile of the entrepreneur who knows the concepts of the knowledge-based economy and organization. It has higher education, a seniority on the market between 10-15 years or over more than 15 years, comes mainly from the south and southwest region, falls into the category of medium-sized stock company, and operates in the services, construction and trade sector.

**Tab. no. 1 - The knowledge of the notions regarding the knowledge-based economy and organization within SMEs**

	depending on the SMEs age						
	under 5 ani		between 5-10 years	between 10-15 years	over 15 years		
Know de concept	25,38%		23,98%	29,08%	27,95%		
Don't know de concept	74,62%		76,02%	70,92%	72,05%		
	depending on the regional affiliation of SMEs						
	northeast	southeast	south	southwest	northwest	center	Bucharest-Ilfov
Know de concept	26,92%	24,74%	36,09%	34,65%	4,97%	13,92%	25,85%
Don't know de concept	73,08%	75,26%	63,91%	65,35%	95,03%	86,08%	74,15%
	depending on the SMEs size						
	micro enterprises	small enterprises			medium enterprises		
Know de concept	24,25%	32,05%			37,68%		
Don't know de concept	75,75%	67,95%			62,32%		
	depending on the legal form of organization						
	Stock company	limited liability company			other legal forms		
Know de concept	32,25%	25%			35,57%		
Don't know de concept	68,75%	75%			64,43%		
	depending on the branch in which the SMEs operates						
	industry	constructions	comerce	tourism	transportation	services	
Know de concept	25,08%	26,87%	25,79%	19,44%	11,63%	28,47%	
Don't know de concept	74,92%	73,13%	74,21%	80,56%	88,37%	71,53%	
	depending on the level of training of entrepreneurs						
	primary studies	secondary studies			high studies		
Know de concept	16,63%	18,83%			31,33%		
Don't know de concept	83,37%	81,17%			68,67%		
	depending on the performance registered in 2013 compared to 2012						
	much better	better	identical	weaker	much weaker		
Know de concept	79,41%	44,81%	21,34%	19,45%	20,00%		
Don't know de concept	20,59%	55,19%	78,66%	80,55%	80,00%		

Source: National Council of SMEs in Romania,  
The White Chart of SMEs in Romania 2014, Bucharest, July 2014, pp. 170-173

Most poorly informed on the concepts of the knowledge-based economy and organization are entrepreneur with primary studies, with a seniority on the market with under 10 years, coming from the center of the country and falls into the category of micro limited liability company and operates in sectors such as transportation.

The last part of the table highlights the correlation between knowing the concepts of knowledge based economy and knowledge-based organization and the performance of SMEs between 2013 and 2012. As can be seen from the above table, those who are familiar with these concepts, said they had increased their performance in 2013 compared to 2012.



#### 4. Conclusions

The transition to the knowledge based economy, bring significant chances in how to set up and operate in a business. The foundation of any company is based on the exploitation of opportunities

*„The Knowledge-based companies are created - from this perspective - in two ways: exploiting the new types of opportunities associated with the knowledge-based economy and seizing the opportunities of the classical economy, but in a new way, focused on knowledge.” [5]*

Small companies are prolific innovators from several reasons. One of the reason is that innovation is carried out in a probabilistic framework in which a company never knows if a particular outcome will be successful or not on the market.

The economic gap between Romania and most EU member states is a major impediment for SMEs in achieving competitiveness on the European market. The safest solution to overcome this problem is the use of information and communications technology in all activities undertaken. This is a difficult requirement for Romanian entrepreneurs who continue to struggle for survival due to outdated processes, lack of innovation and courage to take risks.

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## Mobile Youth Culture

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### Abstract

*In this paper we intend to discuss issues concerning younger generation's use of mobile media and communications and their impact on culture and society. We will provide examples of young people whose participation in social movements contributed to changing their society, arriving at the conclusion that young people are the driving force of both new media technologies and online activism. Lastly, we will set to prove that activism, social change and the practice of democracy are strongly interconnected.*

**Key-words:** media, mobile, activism, online, democracy

**J.E.L. classification:** I30

### 1. Introduction

By youth culture we mean a specific system of values that characterize the behavior of the individual at a certain age within the society in which it operates. This youth culture must be understood within a social structure, in other words, what the younger generation of today is different from other young generation at some point in time, depending on the structure of the society. Younger people have been heavily involved in the development of mobile media and communications since the beginning [1].

It is easy to note how children and young people use mobile phones and other devices at an early age. The new tactical interface of smartphones and tablets allow even very young children to use these devices easily. This is the first thing that draws attention to the younger generation change. The transition between childhood and adolescence and between adolescence and adulthood becomes imperceptible, as by

using new technologies the young easily assume adults' roles. But there is also this constant concern that people extend their childhood beyond the ages of twenty-thirty years [2].

### 2. Mobile youth culture

Beyond this perpetuum of new technologies to which young people adapt easily, there are cultural models promoted by these systems. It is obvious that the Internet promotes new spontaneous movements, of the grassroots type [3], that appear and operate very quickly, but many people doubt whether these efforts based on online movements can resist. Bimber [4] suggests that this could be a model for new organizations for social movements: decentralized and transient groups that will appear and remain active until the problem is solved, after which they disappear, being satisfied with the idea that, if necessary, another group can be built again quickly [5].

Youth participation in social movements reveals important aspects of contemporary social movements. Young people can radically influence social change. Many of them are eager to participate and transform the world and even seek opportunities in this regard. In fact, young people started almost every major social movement in modern history. During the US Civil Rights movement, Claudette Colvin was 15 years old when she was arrested for refusing to give up the bus seat to a white person. Also in the same movement, young activists such as Diane Nash, found new ways to protest and to mobilize the masses (Freedom Bus) and established strong organizations such as the Student Nonviolent Coordinating Committee [6].

Sometimes activism among the youth is considered as belonging to the past, but this statement is far from the truth. Only in recent

years, young people were key participants in movements that overthrew dictatorships in Tunisia and Egypt, protesting against austerity measures and corruption in Greece and Spain and defending public education in Canada and Chile. Young people around the world took part in the Occupy movement to draw attention to the increasing financial inequality [7].

Young activists without a residence visa (for example, Jorge Gutierrez, Nancy Meza and many other activists of the United We Dream and Dreamactivist.org organizations ) organized demonstrations and meetings which in 2012 forced the Obama administration to announce a temporary cessation of deportation of young people without a residence visa. These are just a few recent examples [8].

The young innovate the media practices in social movements. Costanza-Chok [9] provides further examples of conclusive cases of social movements where young people had a huge contribution, such as the use by high school and secondary school students of the social network MySpace and SMS, as well as leaflets and films in order to circulate information about the protests against the immigration law proposed by the American Congressman Jim Sensenbrenner in 2006. In 2007, young people used blogs and social networks to organize protests against discrimination in Jena 6 case (in Jena town, Louisiana, 6 African-American boys were accused of assaulting a white teenager, but the charges were exaggerated precisely because the city's population is predominantly white).

Another example is from 2010, when the organization DREAM's activists broadcast live on Ustream the meetings in the office of Senator McCain to draw attention to the need for a reform of immigration policies. And a more recent example is the use of Facebook and Twitter in 2012 to circulate information about justice for Trayvon Martin, a young African-American killed by a neighborhood guard. Young people use every new tool offered by the media for their own objectives, including for social movements [10].

According to Castles [11] we have a young generation with a much better defined sense of curiosity, with a need for much more information than their predecessors. The use of mobile phones transforms the younger

generation around the world through two interconnected processes. As technology increases the autonomy of young people as independent entities that communicate various messages, at the same time, it strengthens the relationship of dependency between young people and traditional social institutions, especially the family, in the form of financial support and parents' supervision. Young people equipped with mobile phones in different societies face the same central question: how to use this new opportunity for independence in actual conditions imposed on them, especially by the family and at school.

We can say that young people are and will be the promotion engine of new media technologies and social online activism. They are educated in a society that enables them to fully appreciate the power granted by quick access to information from various sources, in different forms [12]. They create a general moral and civil sense and involve themselves, even through a simple comment, that can generate a chain reaction of other comments.

### 3. Activism

Activism, social change and the practice of democracy are strongly interconnected. This is the fruit of activists and social movements that push society forward, report problems, failures and inequities and harness everybody's ideas for a better world. Effective activism articulates its message in such a way that ordinary people can identify themselves with the message and the purpose of companies and encourages activities and actions designed to influence decision-making processes.

In an interview for Go Free magazine, Adi Dohotaru, member of the Social Action Group (GAS) and the organization Civic Organizations Working Group (gLOC) answers the question what it means to be an activist in Romania, as follows:

“I understand activism as a form of intensity. It is the effort, vitality and energy we need in order to express truths, causes or problems. In this sense, anyone can become an activist. For example, I am a historian and journalist. It is not a formula restricted to the NGO sector or to the informal and spontaneous movements that begin to form in

Romania. Then, my activism is a strong expression of a more democratic citizenship, of a more inclusive and equalizing society. [...] In short, beyond differences, the activist that I am considering sums up the intellectual's critical function and the representative role of the politician, becoming a synthesis of all these”.

Therefore, activism or being an activist should have three basic components: a critical attitude, a representative role and to have a certain power to attract attention to a certain problem. This is where Social Networking Websites step in, with their ability to convey the message with the speed of pressing a button.

According to Joyce [13] digital activism includes all online tools, along with the increasing use of mobile- based technologies. It has the enormous potential to expand the capabilities of activists and social movements, but this does not separate it from non-traditional digital forms. The purpose of social movement and activism has not changed, but only the tools and tactics by which it is expressed. Eventually, the final result, i.e. the activism itself, is important, not the chosen tools, technologies or infrastructures.

Aidan Ricketts [14] reinforces this idea: "While it can be very satisfying to generate a lot of activity in the digital world, the important test of effectiveness is how well such activity translates to change in the real world". Therefore, activism becomes all the activities and actions that occur in the process called democracy. The link between new trends of reorganization of the way society understands democracy and the new hybrid activism - a combination of online and offline - goes beyond the mere success or failure of a street movement.

#### **4. Participatory democracy**

In the context of the very controversial globalization, the continuous expansion of new communication technologies, and the amazing speed with which information travels around the world, a neglected idea is rising again. The story of participatory democracy is an old one, from the Iraqi code of laws called the Haudenosaunee, to the participatory democracy of the 7-8 centuries BC in ancient Greece. However, the model

was successfully applied only for short periods throughout history, political mechanisms deciding that the representative democracy approach is more effective, but now it no longer meets the needs and demands of the society that wants a larger and larger involvement in decision making mechanisms.

Citizen participation, as described by Igor Koryakov and Timothy D. Sisk [15] "has many functions in developing a strong system of local self-governance, as it is a central way to build awareness of the importance of the local structures and a means of understanding the concerns and desires of the community".

Thus, participatory democracy and this awareness of the political, cultural, or social context are part of a mechanism in which they complement and determine each other. Participatory democracy cannot exist without a group, without a well-established collective identity able to express its views in cases of major importance for the interests of the group.

An example of defending a group's interests and use of a strong collective voice is the approval for Barrancones thermal power plant construction, in Chile during the summer of 2010. The power plant was to be located 25 kilometers from Punta de Choros, where there is a nature reserve which hosts about 80% of the Humboldt penguins in the world. The project was approved by a striking majority. However, the approval of the project led to street protests that culminated with a 2,000 protesters march to the presidential palace. They asked President Sebastian Piñera to obey the government program which specified that no thermal power plant would be built to endanger the environment. Two days after the protests, the President publicly announced that the plant would not be built near Punta de Choros [16]. This is a concrete example of collective will, solidarity and involvement of individuals in solving a problem of national, even international interest.

In his book, „Le nouvel esprit de la démocratie. Actualité de la démocratie participative”, L. Blondiaux points out that citizen participation takes place at least on five levels of activity: information, consultation, consensus, decision-making and self-governance. The same five key levels

can be applied to building a sustainable collective identity that may either push for consensus, or express conflict [17].

Online social movements do nothing but reinforce these levels, and confer new dimensions to them. It can be said, therefore, that a new type of collective identity arose from Social Networking Websites's integration into the political, commercial and social context. This type of on-line collective identity can be defined according to Polletta and Jasper [18] as "the moral, emotional and cognitive connection of an individual with a community, a practice, an institution or a vast category," or a type of solidarity of those campaigning against something as interpreted by Taylor and Whittier [19].

A good example of online platform that united the masses in the months preceding and during the 2014 presidential campaign in Romania is the platform of the Romanian newspaper “Gândul”. This is a concrete example of how print can reinvent itself with the help of the Internet. The target audience of this platform were young Internet users and the diaspora, those who wished to be informed and view real-time images from the country. The purpose of the “Gândul” trust was to encourage participatory democracy, everyone's involvement in an event with a major impact on our country [20].

The idea was quickly accepted both by many online activists and by people who wanted to participate, engage, share their views. We can thus speak about a "democratization" through the Social Networking Websites, compared to the old, "citizen journalism", as defined by the American journalist Courtney Radsch: "an alternative and activist form of newsgathering and reporting that functions outside mainstream media institutions, often as a repose to shortcoming in the professional journalistic field, that uses similar journalistic practices but is driven by different objectives and ideals and relies on alternative sources of legitimacy rather than traditional or mainstream journalism" [21].

Social networks and media-sharing sites (distribution of media content) are a mouthpiece for this "citizen journalism". According to a statistics obtained at the end of January 2015, only on Facebook, the largest social network, users share, on average, one million links and write an

average of three million messages every 20 minutes [22]. For Twitter, the second most popular social network, the number of tweets distributed daily is about 58 million [23].

## 5. Conclusion

We can talk about a real shift in the world of media movement. "Ordinary" people are actively involved in the production of media messages so that power is removed from the hands of those whose profession is journalism into the hands of the public, who once just enjoyed the information provided by journalists.

According to Mark Poster [24], the Internet provides through these social networks "a Habermas public sphere", i.e. cyber-democratic network for communicating information and points of view that will eventually turn into public opinion. A concrete example of such actions in Romania is the site of protests against mining at Roşia Montană, <http://www.rosiamontana.net/>, containing a petition which will be submitted to the European Union. The group's Facebook site has already raised over fourteen thousand likes, and the petition was distributed nearly six thousand times via the pushbutton incorporated in the site until now.

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# Participation of Romanian Social Enterprises in the Public Procurement Market

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## Abstract

*The development of social enterprises is a solution for solving social problems in order to prevent and overcome some difficult situations, vulnerability and exclusion. Facilitating access of social enterprises to the public procurement markets could accelerate the development and strengthening of the social economy. This paper shows the level of Romanian social enterprises participation in the public procurement market. Analysis of public contracts awarded to social enterprises allowed extraction of both structural and dynamic information.*

**Key words:** evolution, public contracts, public procurement market, social enterprises, territorial distribution.

**J.E.L. Classification:** A14, H57.

## 1. Introduction

The elaboration of the Europe 2020 strategy created the context for further debate and reflection on the role of public procurement and social economy in the European Union [1].

Entering qualitative criteria related to social responsibility in the procurement process is, among other things, a consequence of the development of social economy and the growing social enterprises importance for communities worldwide.

The social economy is a rising concept because current structures of the market economy generate inequalities between people regarding the welfare, social role of the State has diminished considerably, and public finances do not make face the challenges of economic crises in recent years.

In Romania there is a proactive attitude about the development of social enterprises.

Social enterprises in Romania include the following organisations:

- Civil society organisations (nonprofit organizations) under taking entrepreneurial activities;
- protected units;
- Cooperative societies.

Social enterprises in Romania currently work in different sectors including: work integration, provision of social services, culture, education, health, environment and waste treatment, nature conservation and protection of the environment.

## 2. Literature review

Social enterprises registered a rapid and significant development, the late twentieth century and early nineteenth century because they have demonstrated that they can provide a solution to social problems of the communities [2]. Representatives of political, economic and social welcomed the emergence of a new model of organization in the sector of non-profit entities [3].

The use of public procurement to achieve social goals is a common practice in some countries of the world. Christopher McCrudden conducted in 2004 a comprehensive overview of the history of social policies, identifying several situations in which public procurement was used to facilitate access of economic operators in the social economy to public contracts [4]. Ever since the nineteenth century in countries like USA, France and England, the public procurement strategies played an important role in achieving social objectives: creating jobs, social inclusion of disadvantaged persons, etc. The study conducted by Schulten et al (2012) highlights a number of public procurement practices in some European countries, Wages clauses (as a tool used to achieve social goals) having the highest frequency [5]. Various authors [6]

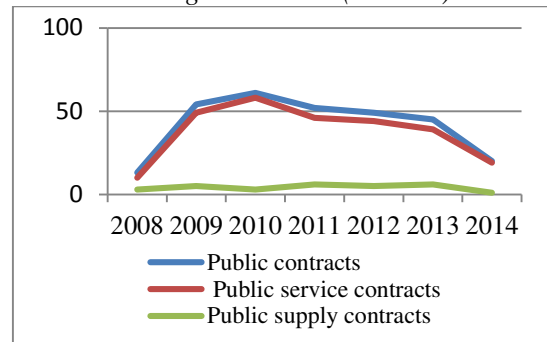
and [7] applauded the provisions of Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts. According to the regulation, Member States could reserve the the right to participate in the award of a public contract to sheltered workshops or they could provide for such contracts to be performed in the context of sheltered employment programmes where most of the employees concerned are persons with disabilities who, by reason of the nature or the seriousness of their disabilities, cannot carry on occupations under normal conditions [8]. On 26 February, 2014 Directive 2014/24/EU of the European Parliament and of the Council on public procurement and repealing Directive 2004/18/EC was published in the Official Journal of the European Union. The new legislative package on public procurement represents a step forward due to the fact that it allows contracting authorities to reflect on the social considerations in evaluating bids [9].

### 3. The evolution of public contracts awarded to social enterprises in Romania

Researching information contained in Electronic System of Public Procurement generated the identification of 294 public contracts awarded to social enterprises in Romania (cooperatives, associations and foundations) during 2008-2014, representing about RON 15.17 million (the value of public contracts ranged between RON 0.7 and 429 thousand). These figures demonstrate the low level of Romanian social enterprises participation in the public procurement market (about 0.1%).

The total number of public contracts awarded to social enterprises in Romania grew during 2008-2010, followed by a decrease in the following period (Figure 1).

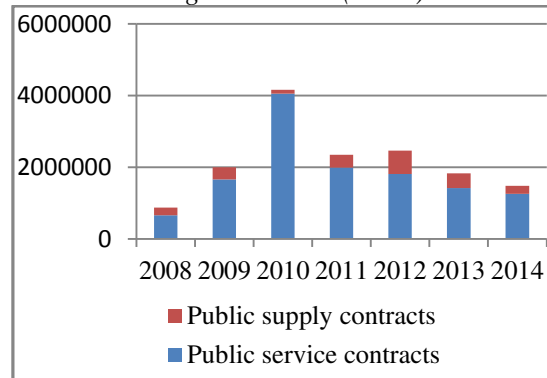
Figure 1. The evolution of public contracts awarded to social enterprises in Romania during 2008-2014 (number)



Source: author's calculations

Public service contracts awarded to social enterprises in Romania have the largest share (over 85%), both in terms of number and value (Figure 2). In terms of numbers, public supply contracts awarded to social enterprises in Romania remained relatively stable over the analysed period.

Figure 2. The evolution of public contracts awarded to social enterprises in Romania during 2008-2014 (value)

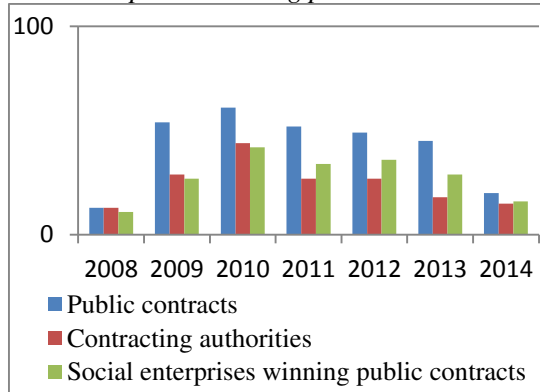


Source: author's calculations

Between the total number of public contracts and the number of contracting authorities or the number of social enterprises winning public contracts there are differences (Figure 3).



Figure 3. Differences between the total number of public contracts and the number of contracting authorities and the number of social enterprises winning public contracts

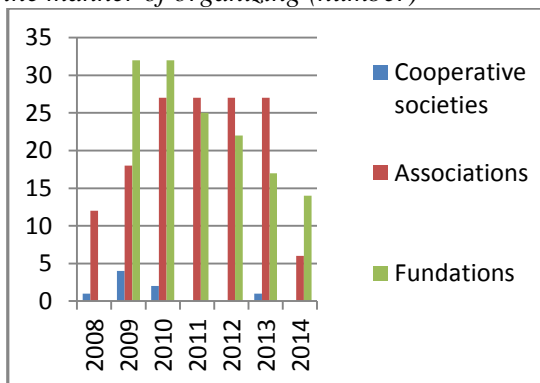


Source: author's calculations

A contracting authority awards averaged 1.7 public contracts to social enterprises and a social enterprise wins, on average, 1.5 public contracts.

Most public contracts were awarded to the associations, but the difference from the public contracts awarded to the foundations is very low (Figure 4). 49% of public contracts were awarded to the associations and 48% of public contracts were awarded to the foundations. Cooperative societies have a poor representation to the Romania's public procurement market.

Figure 4. The evolution of public contracts awarded to social enterprises, by the manner of organizing (number)

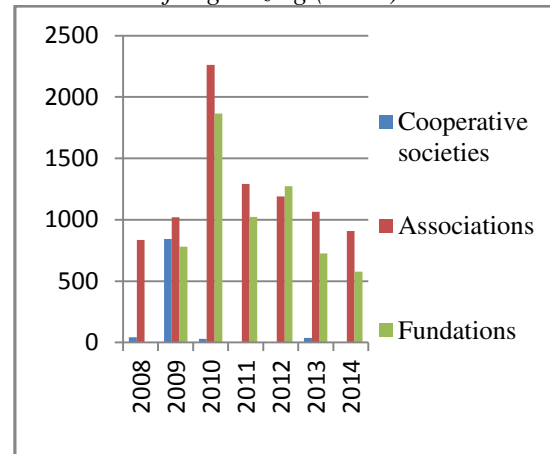


Source: author's calculations

Analysis of the value of public contracts awarded to social enterprises, by the manner of organizing shows an almost similar situation (Figure 5). Social enterprises organized as associations win public contracts worth RON 8.6 million (representing 57% of total) and social

enterprises organized as foundations win public contracts worth RON 6.2 million (representing 41% of total), during 2008-2014.

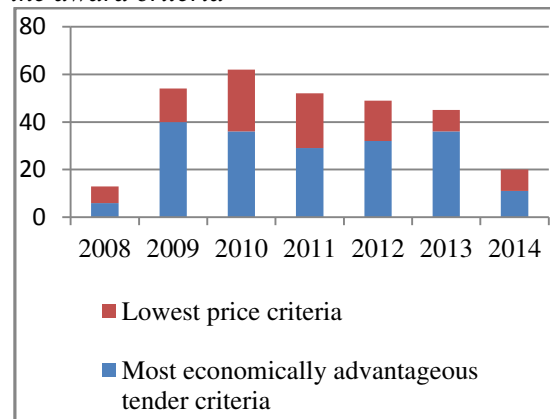
Figure 5. The evolution of public contracts awarded to social enterprises, by the manner of organizing (value)



Source: author's calculations

Public tendering procedure used in all contracts awarded to social enterprises was offer request. In each of the seven years of analysis, the most economically advantageous tender was the most widely used criterion (Figure 6).

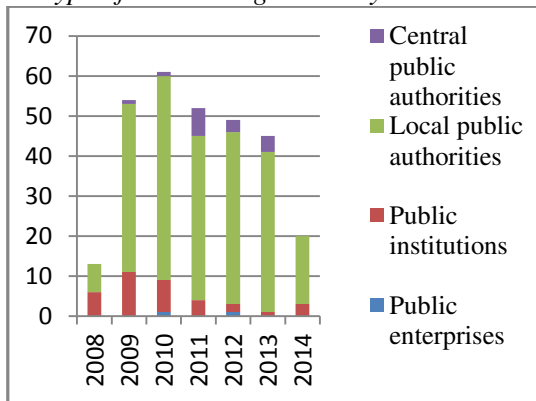
Figure 6. The evolution of public contracts awarded to social enterprises, by the award criteria



Source: author's calculations

Grouping contracting authorities into 4 categories (central public authorities, local public authorities, public institutions and public enterprises) I noticed that public institutions awarded most public contracts to social enterprises (Figure 7).

Figure 7. The evolution of public contracts awarded to social enterprises, by the type of contracting authority



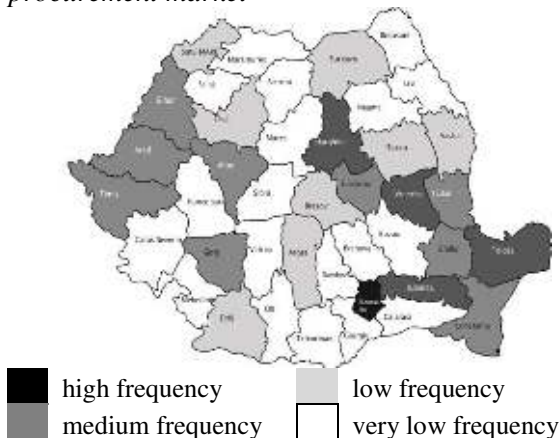
Source: author's calculations

Public institutions awarded public contracts to social enterprises representing 82% of total. Central authorities have the lowest representation within the contracting authorities awarding public contracts to social enterprises.

#### 4. The territorial distribution of public contracts awarded to social enterprises in Romania

The territorial distribution of public procurement contracts awarded to social enterprises indicate (Figure 8) that there are 19 counties with a very low representation (less than 1% of total).

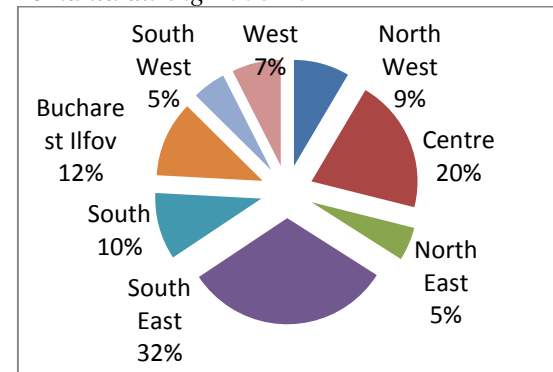
Figure 8. Frequency of Romanian social enterprises participation in the public procurement market



Contracting authorities in the Bucharest-Ilfov awarded public contracts to social enterprises representing 11% of total.

Regional allocation of the 294 public contracts awarded to social enterprises in Romania during 2008-2014 shows that over a half of these contracts were awarded by public authorities in the South East and Central Regions (Figure 10).

Figure 9. Regional distribution of public contracts awarded to social enterprises in Romania during 2008-2014



Source: author's calculations

Southeast and Central regions hold the most important positions in the regional distribution of public contracts awarded to social enterprises in Romania during 2008-2014.

#### 5. Conclusions

There is some correlation between Romanian public procurement market development and the evolution of public contracts awarded to Romanian social enterprises, in terms of number and value of public contracts [10]. The public procurement market in Romania decreased during 2008-2014. The steepest decline was recorded in the 2012-2013 period [11].

Associations and foundations are the most represented social enterprises in the public procurement market in Romania. The main consequence of this situation is a very large share held by public service contracts in the total number of public contracts awarded to social enterprises.

Public institutions are contracting authorities with the greatest involvement in the award of public contracts social enterprises in Romania, but the situation may be the result of advanced position that such organizations hold public procurement market in Romania.

Most public contracts performed by social enterprises were awarded by contracting authorities in Western and Southeastern Romania.

The Romanian social enterprises participation to the public procurement market is very low. Romanian social enterprises receive public financial support (particularly through the European Social Fund), but this one measure can not be sufficient. The support granted by public authorities through facilitating social enterprises participation in public procurement market is a form of positive discrimination and a tool through which social enterprises can better deal with the competitive challenges of the contemporary economy.

The idea to develop a strategy for creating a favorable environment for the development of social economy (found in press releases of enterprise social networks in Romania) is important both to clearly define the concept and to create an institutional framework necessary for the development of social enterprises and the attraction of European funds. Such a strategy should target, among other things, including social criteria in public procurement procedures and expanding facilities for social enterprises access to public procurement market in Romania.

### Acknowledgements

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## Aspects regarding the Importance of Development Resources in the Economic Growth

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### Abstract

*In the actual context of the enhanced interest given in development issues, the economic theory studies the opportunities for efficient allocation of resources and their contribution to sustainable economic growth.*

*The paper refers to the implications of economic development in the structure of an economy, the growth being its important objective and main factor of the economic success.*

*It is highlighted the role of resources, as a basic element of growth, with reference to the categories of resources, characteristics and their implications in the development of the economic-social activities.*

**Key words:** resources, economic growth, development.

**JEL Classification:** F63; O10, O13, O15, O40

### 1. Introduction

A present-day issue addressed by many theorists, the economic development arose as a consequence of society facing to certain difficulty problems relative to the new economic reality, such as: the income distribution, poverty, globally balance of forces, the problems that the under-developed and emergent countries are facing etc.. The theory of economic development studies the possibilities of efficient allocation of resources, as well as, of the way they participate in the sustainable economic growth. At the same time, it seeks to answer a series of questions related to: the ability of different theories and concepts to contribute to a better understanding of the process of development, the sources of economic growth at national and international level, the

influence of internal and external factors on the development/underdevelopment, the experience of economic progress of the developed countries, the environmental development, the economic impact of the support given by the rich countries, to developing countries etc.

### 2. Theoretical approaches concerning the economic growth and development

Perceived, initially, in relation to the concerns of economic growth, the conceptual area of development was enlarged by considering the elements regarding the economic issues in relation to the social ones, the economic performance being premises of social standards (raising living standards, a high degree of health care, improvement in the educational system, developing of effective programs to eradicate poverty, ensuring adequate social assistance services). [6]

The economic theory of development is trying to answer to a series of requirements imposed by the fulfillment of some institutional and structural changes, concerning the economic progress at the entire society level. These give new dimensions for economic development, considered as a process involving qualitative changes in the structure of an economy, by increasing the contribution of high productivity sectors, users of performance resources, in the GDP achievement, building an efficient economic system, having a good correlation of the economic problems with the social ones, the encouragement of economic activities, in territorial level, corresponding to particularities and existing local resources able to lead to regional disparities erasing. [4], [6]

The main objectives aimed by the economic development policies, are referring to: [6]

- increasing the possibilities for achievement and distribution of goods, on a large scale, goods that sustain the basic needs of life;
- a better standard of living, which means high income, more jobs, a better education, the promotion of cultural values;
- enhancing the economic and social opportunities for individuals and nations.

The problem of economic development manifests itself at the level of each country, but with worldwide repercussions, as a result of the interdependencies caused by some disturbance factors, present both at the level of underdeveloped countries and of the developed ones, such as: technological gaps that cause blockage in international trade, the lack of resources for the underdeveloped countries, a high degree of unemployment etc.. [6]

In the actual stage, the economic growth is both economically and politically, one of the important objectives of development, the main factor that can ensure the economic success of a nation, in the long term, one of the fundamental premises of the efforts to eradicate poverty. [17] The phenomenon was a major subject of analysis of theoreticians and decision-makers, in trying to explain the occurrence forms of some economic phenomena and their determinants. [7], [18]

The economic growth means a process aimed at the growth of the national economy activities, expressed through macroeconomic indicators, respectively, the dynamic of the national product, overall or per capita. It can be appreciated that, in the short term, this process means phases of economic prosperity and, on the long-term, it expresses an upward trend, a consequence of succession of increase and decrease.

As an occurrence form of this process, we find:

- **zero** economic growth – where the GDP/capita remains constant in the period, due to the existence of the same rhythm of increase in GDP and total population;
- **positive** economic growth - GDP/capita increases in the period, due to the manifestation of a GDP growth rhythm, higher than the population growth ones;
- **negative** economic growth - a manifestation situation opposite to the

previously stated one; GDP /capita decreases in the analyzed period. [4]

### 3. The role of resources in the economic growth

At the macroeconomic level, the economic growth can be considered as a production function, whose factors should be established based on the resources the society disposes of, for the development of economic and social activities.

#### 3.1. Resources, conceptual elements, definitions.

A general consideration on resources, designates them as being sources of the wealth of a nation, available means for capitalizing or solving some problems, in different circumstances, elements of the human activities aimed to meet the needs, welfare growth, ways of action to overcome the difficult situations; among many definitions and meanings of these, may be mentioned:

- According to the Random House Dictionary, the resources are:
  - a natural source of wealth or income;
  - a phenomenon that could lead to the quality of human life increase;
  - an offer of information or expertise;
  - the means to which it may have recourse to overcome some difficulties or solve some situations. [11]
- Oxford Dictionaries considers that by resources, it should be understand:
  - material stocks, money, other goods that can be obtained by persons or organizations towards functioning;
  - source of support or informations;
  - actions or strategies that can be adopted in different circumstances;
  - the ability to find intelligent solutions to overcome the difficulties. [9]
- In *PETITE LAROUSSE en couleurs* 1980, the resources are considered:
  - a mean of existence for one person;
  - an element of the wealth and power of a nation;
  - a mean of recovery of an airplane being in a nose-dive. [10]
- According to Wikipedia, "A resource is a source or supply from which benefit is

produced". The benefit obtained from the use of the resource may consist of breaking a deadlock or in obtaining and strengthening an advanced welfare, as well as in the good working of a system. [12]

- The DEXONLINE Dictionary defines the resources as being: "a reserve or a source of means susceptible to be harnessed in a given circumstance" [8]

### 3.2. Categories of resources, implications in the economic and social activity

In the area of resources coverage there are found the following categories: [2]

- a) Originary or primary resources which include:
  - *Natural resources* having the greatest importance to satisfy the human needs;
  - *Human resources (the demographic potential)* of a particular economic importance by the action carried out on the natural resource.
- b) Derived resources - the result of the primary resources use.
  - *Natural resources.* The natural environment is the framework of human existence and the source of the economic resources and of the society progress. In general, by natural resource, it should be meant "a substance, a nature, an object, present in nature, which in the most cases, is put to the purpose of the use aimed to meet the needs (energy, food, recreation), of the individuals, animals or vegetables".[14]

The natural resources are appreciated as such, valuable, in as far as they remain in the natural shape, unchanged, the only primary activities that are carried out on them, being the uncreative activities, the extraction and purification. [16]

The significance of the concept has a complex character, in this category, there are included the natural elements, indispensable to human existence and economy development; their preservation implies leading the technical progress towards a sustainable use, expressed both through a rational exploitation and by an improvement of the activity of their management. [5]

- *Human Resources.* The quality and quantity of goods needful to meet the human needs, do not only depends on the

available economic resources, but also on the competence, qualification, skill and prudence of people who produce these goods, respectively, on the human resources.[1] These are the labour reserve of which the company dispose of, it is the creative, active element of the economy, by branches of activity, up to the level of organizations, causing the efficacy of the other (natural, material etc..) resources use.

The human resources should be distinguished both as primary resources (labour resources) and derived resources (the education stock, Research, Development and Innovation), whereat it shall be added the information resources. The human resources condition the volume and variety of human activities - a result of the quality of workforce, based on the experience and information gathered; their effect on the natural resources led to their separation from the natural environment, enabling their draw and use in the production of goods. [2]

The information, based on the education system, should be transferred in the areas of science, technology, human culture, giving an image to the quality of human resources and the possibility of its qualification.

It is needed to underline the distinction between the concept of *human resources* – the human potential at society level and that of *staff*, whose comprehension area is restricted to the working apt population being on the staff, so, the effectively employed population. [3]

Signifying one of the elements of economic growth, the human resources belong to both demographic sphere (number, the structure of the workforce), and the economic one, adapting and developing adequate to the demands of the two areas. [15]

Thus, "the human resources function is understood as defining a better possible arrangement between employees (of an organization) and resources (human)" [13].

- Derived resources - economic resources - are the result of the use, of the two categories that make up the primary resources (natural and human), giving weight to the efficiency of their use.

The natural resources, which are drawn in the economic cycle, by the action of the human resources, enable the creation and

accumulation, in time, of the material resources.

As such, the material resources (the real capital) include the natural resources, the primary and derivatives ones (equipment, manufacturing technologies, economic infrastructure, stocks of raw materials). [2], [4]

Thus, the natural resources should be established as economic resources, as a result of their exploitation and shift into goods needful for human, having a certain market value. In this sense, the concept of economic resources includes all the material and human elements, as well as the monetary, financial and information ones, that can be drawn and used in the production of economic goods, needful to meet the human needs. [1]

#### 4. Conclusions

The traditional economic sciences constitute a basic framework to understand the processes related to growth and development; over time, the conceptual area has been expanded by including new elements related to understand the problems that the under-developed and developing countries face with, as a result of the new challenges arised from the economic reality.

Searching for the ways for the achievement of economic growth, it should be taken into account the role of its determinant factors and the consequences on growth, respectively:

- *The human resources* (the labour and education), the level of qualification and motivation in the activity are reflected in the level of productivity, giving expression to the quality of indicator. [4]
- *The material resources – the actual capital* (natural resources drawn into the economic circle and the production equipment) contribute to growth, through the volume of the actual capital being in operation, whose productivity is conditioned by the technical and technological performance and the human factor qualification. [4]
- *The informational-technological element*, in relation to the technical innovation potential (the Research and Development investment share in GDP), make

contribution to the competitive advantage growth. [4]

The rationality of the economic activity requires an use of resources, as most appropriate, taking into consideration the characteristic of their rarity, evidenced by their scarcity in relation to the needs, to whose fulfillment, they must make their contribution.

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## Level 5 in Education

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### Abstract

*The purpose of education is to create leaders with the potential to transform the world around them. We applied the scheme conceived by Jim Collins, in his work "Business excellence", customized and adapted to the current needs of change within the academic system. Its entire research highlighted the need for disciplined people, disciplined thought and disciplined action in any field we want excel. Our contribution lies in applying the same scheme in the academic system which, unfortunately, needs discipline in order to create talents for a prosperous society. Given that Collins's work is based on the research of several companies that have achieved excellence, we thought that the scheme's implementation in universities could help us save our country in decline, in all aspects. This paper reflects our view and it is based on the idea that reality is relative and objective, that people can achieve excellence and that our world can change if we really want this.*

**Keywords:** disciplined people, level 5 teacher, level 5 student, disciplined thought, disciplined action.

**J.E.L. Classification:** A23, I21

### 1. Introduction

An academic system is like an "industry" that produces educated personnel for the labor market, including education. Until 1989, the academic system was based on meritocracy, and graduates could choose the positions that they were to occupy, according

to the grades they had obtained. The system was conducted rigorously, relying on the students' compulsory attendance to courses; it was very selective and, therefore, it did not pose major management problems. Most graduates had the same value system centered on learning, as they were very conscientious.

We inherited a qualitative academic system that, unfortunately, was lost over the years because of its poor management, the changes in the political regime, the technology that has been misused by students, the freedom that, a few years ago, we had wanted and that, at present, we do not use it in order to develop ourselves; we thus plunged even more within indifference and mediocrity, complying with the wrong values publicized on all channels.

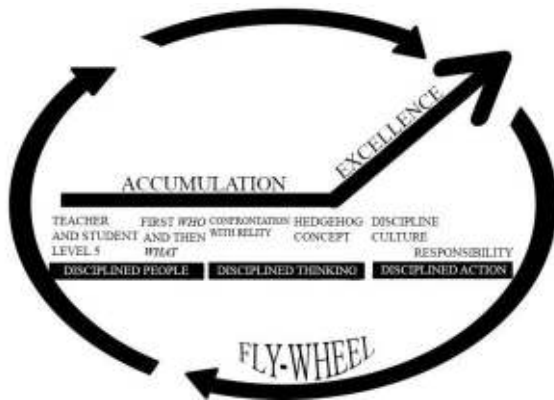
Romania adopted the Bologna system, even if this process does not fit in the overall state of the country, in economic and social terms. Beyond the issues regarding the academic syllabus, the Bologna system also requires the resolution of other problems, untouched by our country, such as the existence of counseling and career guidance centers which, although mandatory, have not been implemented in all Romanian universities; moreover, where these centers exist, there are extra fees for the simple counseling funded by the state.

This tough finding comes from the analysis of the reality influenced not only by the teaching staff but also by the continuing struggle with the new technology. It is difficult for a teacher to be more interesting than Facebook, Twitter, Can-can TV and other fashionable social networks and entertainment shows, with thousands of

unnecessary new principles for the development of individuals. In this respect, we propose the approach of a new and revolutionary system.

In this paper, we will analyze the academic system and we will propose solutions inspired by Jim Collins's structure from "Business Excellence"; this structure arose from the research made over five years, by a team of professionals, on large companies. We carefully analyzed the sources of all problems, especially the economic ones, which brought us where we are, as a developing country; when examining each problem, we inevitably reached the same answer, i.e. education. "The correct education is the basis for prosperity, jobs and economic growth for all." [1].

*Fig. 1 Concept of Excellence - processing based on Jim Collins's scheme*



Source: Jim Collins, "Business excellence".

## 2. Disciplined people

### 2.1. The level 5 teacher

This paper starts with the level 5 teachers because they have the greatest power of change, as they have more experience than the students and we tend to think that, nowadays, it is impossible not to find passion in each of them. Certainly, there are many who have lost their confidence because of the system, but we must find those more fortunate, more powerful, whose passion is slightly touched by the national failures in education, and ask them to bring the team spirit among the teaching staff. They should help this unity, on which the future of the nation depends; they should gather force, desire and trust in the existing potential, buried by bureaucracy and overloaded with

tasks that can be transferred to the experts in various other fields, as they should deal only with students and with their evolution for a precarious labor market, with many problems to solve. "Good is the enemy of great." [2].

Level 5 teachers, regardless of the circumstances where the education activities are carried out, are able to achieve excellence in teaching, guidance and education, being largely driven by the passion of getting involved in education.

But where are these level 5 teachers? Is the Romanian educational system able to identify them and place them at the helm of change?

If the system were managed by inside experts who could regard the education as it should, i.e. as an industry that can "produce" people able to develop and apply the ideology that can save the whole country from its terrible calamity, then level 5 teachers could be identified easily, placed in the right places and have the perception necessary to implement their passion and flair.

Concisely, a level 5 teacher should first be passionate, responsive to the students' different needs; he/she should be rigorous and not a dictator; he/she should be patient, friendly and, not least, he/she should demonstrate an unwavering will.

### 2.2. The level 5 student

We need children who are first curious to discover the ensemble taught by teachers at each course, at different subjects. This curiosity should be triggered by teachers. Students should show some humility, be respectful and devoted to the guidance they receive. They should not be afraid to ask questions and answer them because we may never know what idea the answer to that question can engender, and in which direction and to what extent it can lead us. The major problem is that they are not confident enough, which is also determined by the teachers' questions, seen as "traps". In fact, they may be interpreted as "traps", but they do not show the courage to express their own thoughts.

Both the students' involvement in courses and their attendance is decreasing. We expect that, in the future, the students will attend only those courses where their attendance is

taken into account for the examination. Another major problem is that students are no longer interested in courses; they are interested in graduating, being happy to get a simple 5.

The competition, which supposedly stimulates the students' creativity and interest in novelty, no longer exists; therefore, mediocrity is gaining ground at the expense of excellence and the education system is sinking even more into a dense and cold fog [3].

Yet, despite reality, level 5 students are everywhere around us, only that they are inhibited and "buried" by the trends which do not allow them to express their true values, as they might be out of the social pattern created by the media.

### 2.3. First "who" and then "what"?

So far, we have emphasized that the priority in achieving excellence lies in the answer to the question "who?"[2].

If we find level 5 teachers, we make a team and place on them on the right "bus" seats, we can easily find answers to the question "what?".

Things would flow by themselves and excellence would be achieved; it is true that it will take time, but what is more beautiful than to be part of an important thing, to know you have brought your contribution to the change that brought prosperity? maybe you will not rejoice now because the fantastic results will not appear overnight, but, in your soul, you will feel some day that only the passion, the discipline and the dedication were the flywheel which set the change in motion [4].

### 3. Disciplined thought

The disciplined thought is based on the confrontation of reality and on accepting it as a means of solving the existing problems. The fear of speaking about reality makes us complicate things and, thus, we cannot address the "hedgehog concept" presented by Jim Collins in his research. However, if we applied this concept, the solutions to the real problems would be simple and obvious.

Unfortunately, teachers set their different standards among students and do not necessarily assess the students' works

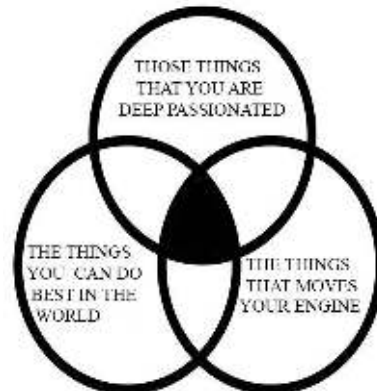
individually, but by comparison, promoting a win-lose mentality.

We should start from the idea of synergy in higher education and try to find a third way, which, however, requires giving up to our own perception of reality and not drawing the curtain immediately after the show but staying there to see the reactions of all the participants to show, as these reactions can greatly assist teachers in their fierce fighting for accepting the reality.

Education is encased by a rigid management system, and, from now on, teachers should achieve excellence through the customization of each student, by a disciplined thinking from both perspectives, by satisfying both the curriculum and the student's need to adapt both his/her own emotional and intellectual intelligence, by stimulating their creativity and by helping them identify their own hedgehog concepts. "The hedgehog concept"[2], as J. Collins presents it, consists of the answers to the questions:

- What are you deeply passionate about?
- What can you be the best at?
- What sets your engine in motion (both as a teacher and as a student)?

Fig. 3 "The hedgehog concept"



Source: Jim Collins, "Business excellence".

The sincere answers to these questions are signs on the road leading towards excellence. Truly superior results can be achieved only if we reach a disciplined thinking, combined with patience and with a sense of a reality according to which things cannot change quickly, as it takes time to reach excellence. It is easier to be corrupt and to corrupt others in order to "manufacture" diplomas, instead

of having patience and succeed in "manufacturing" talents.

#### 4. Disciplined action

If each right person occupies the right place, we do not need too many rules and we should not lose much time for their organization, as they will organize themselves. Clear rules define the power to say no to things that are not within the scope of the hedgehog concept. The analysis of all failures should be made not in order to reveal the mistake, but in order to become aware of the decision that resulted in that mistake, to learn what went wrong, not to repeat that mistake and try to redress the failure.

The disciplined action is a common feature of all level 5 teachers and students, and we believe that the change does not require developing comprehensive and fine-tuned strategies; it requires only the right people in the right places.

The disciplined action lies in each teacher's ability to build airplanes. If everyone used to the same extent the responsibility taken to the extreme and if they were aware that the students' lives and the developing society depend on them, then assuming this responsibility on short and long term would not be a problem and the level 5 would be achieved easily, from the very beginning. This narrow vision is engendered by the fact that the irresponsibility in education has serious long-term consequences; if the results were disastrous on a short-term, the reality map would be more evident. As benchmarks, we could highlight the following: integrity, honesty, fairness, quality work, potentiality, all directed towards the search for the students' talents.

The reality is harsh and if we could place all the academic teaching staff on a soccer field, three would run to score a goal, while eight would chase butterflies.

#### 5. Conclusions

The teacher's role is to ask the right questions in order to incite and make the students to express their own opinions and to justify their choices with clear arguments, to listen to each other, to know each other better and their curiosity to come by itself, i.e. the

curiosity to get to know their colleagues, to become aware of their intelligence, which is actually present in each one of us. In this way, we would create a kind of competition, we would focus on the talent that exists in each one of us; these talents are different but, from an amalgam of private observations, from many individual perspectives, constructive discussions may be born for personal development and the confidence groundwork would be also laid. No answer is wrong, the students should have the courage to speak out and to justify their opinion.

There are many solutions but the right way would require the students and their teachers to establish a team in order to find them, to always come with new questions and answers, not be afraid of reality and shape together a new paradigm of the education system, based on a win-win mentality and on the belief that the education is the key to a nation's prosperity and persistence.

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## **An Overview of Millennials’ Coming of Age. The Emergence of Generation Y and its Underlying and Consequential Socio-Economic Aspects**

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### **Abstract**

*With numbers approaching the mark of 100 millions worldwide, Generation Y (also known as the Millennials) is the fastest growing segment of today’s workforce. But they are also demanding consumers reshaping the marketplace through a unique set of values and characteristics deeply embedded in this generational cohort’s ethos.*

*As a result, everybody in the business world is trying to better understand them, whether it’s from an inside-out perspective as in „How can we better serve our clients?”, or the vice versa - „How can we continuously motivate our employees?”. This paper aims at picturing the key aspects defining Generation Y, the underlying factors leading to their new reality and foreseeable economic consequences across the field.*

**Keywords:** Millennials (Generation Y), generational cohort, technology, sharing economy, behavioral economics

**J.E.L. Classification:** M31, M37, M50, O50

### **1. Introduction**

One of the largest generations in history is about to reach its prime working (and spending) years, already reshaping the economy through their particular set of characteristics, priorities and expectations, very different from those of previous generations. Their values and interaction patterns are deeply influencing our commercial paradigms, forcing companies to examine how they do business for decades to come.

This essay aims at providing an overview regarding the latest generational cohort coming of age: the Millennials, also known as Generation Y. The approach is based on research and analysis of existing literature on the subject, specifically relevant to the concept of Millennials as socio-economic beings. First of all, literature review puts them in the context of generational cohorts, with a spotlight on what defines them as a cohesive group, what are their values, their relation with digital media and how it is all bound to shape the future of our society in a myriad of ways. It continues to try and define Millennial consumers - with what it means to do marketing for this cohort, Millennial employees - with implications for attraction and retention strategies rooted in their specific motivational system, concluding by looking at some other interesting behavioral patterns and lifestyle choices of this new generation and what is to be expected from them in the future.

### **2. Millennials as the latest generational cohort: a literature review**

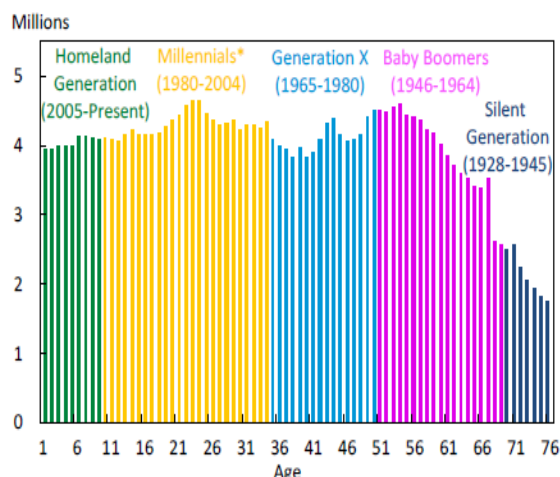
The term of Generational Cohorts is referred to as “a group of individuals with shared similar experiences and unique common characteristics around these experiences” [3]. We cannot simply assume that a generation is defined mainly by a chronological factor, since research suggests otherwise. According to [8], a generation is not defined merely through a timespan, but more so through the lens of generational markers that involve the whole social, economic, and technological environment, as well as the most influential events, from a

historical standpoint, of a certain period of time.

Same authors enumerate the different generational cohorts of the 20<sup>th</sup> century, with slightly different time spans associated to each of them across literature: Greatest Generation (1901-1924); Traditionalists (1925-1945); Baby Boomers (1946-1960); Generation X (1961-1980); and Millennials, defined at the time (2006) as the generational cohort constituted by people born after 1981. Meanwhile, there is more and more talk of a new generation following the Millennials, that of „Digital Natives” or „Generation Z”, with no agreement so far on the exact name or range of birth years [12].

Another proof there is really no general consensus when it comes to naming the earliest and latest generational cohorts is brought by the image below. It is focusing on the distribution in age and numbers of the different generation groups in the case of the US (with data from the Census Bureau). Despite the fact that its contribution is restrained to picturing the situation in only one country, we believe it does a good job in illustrating the main generational cohorts in a self-explanatory way:

*Figure 1: US Population Distribution by Age, 2013*



Source: 15 Economic Facts about Millennials, Oct 2014 [13]

Focusing on Millennials, the general consensus is defining them as the generational cohort with birth years ranging from the early 1980s to the early 2000s. The main generational mark for this cohort is the fact that it is the first to grow up in an

increasingly technology-driven world. Due to the fact that they are offspring of mainly Generation X and late Baby Boomers, Millennials are also highly influenced by their parents' generational marks, such as economic well-being and the accentuated phenomenon of globalization. The Millennial individual as portrayed by [3] is „familiar with high-tech, consumption-oriented, socially and ecologically aware, acceptant of multiculturalism, objective, goal-oriented, and values relationships. Same authors also point out that this is the most “protected and indulged generation” and therefore has “an inability to delay gratification”.

[11] presents similar characteristics when trying to profile the Millennials as “confident and self-reliant, technologically savvy and connected, open to change and diversity, closely connected to family and social organizations, service-oriented, effective at multitasking, and expectant of immediate access to information”.

### 3. Millennials and technology

The most important years, from childhood, education and training to early adulthood and active life of any Millennial or GenY representative have coincided with one of the largest developments in human history: the rise of technology to the rang of ubiquity.

The past few decades have witnessed astounding advances in technology and computing, with ground-breaking innovation happening at a startling speed. With all this unfolding basically during Millennials' formative years, it seems to have shaped not only the ways in which they interact with technology, but also their expectations for creativity and innovation in their own personal and professional lives.

As a result, without even looking at the data, we believe it's safe to state that Millennials are more connected to technology than previous generations, with this being probably the key factor making their generation so unique. Millennials have had an incredible amount of computational power and access to information literally at their fingertips since they can remember, something which is just unparalleled by any other generation before them.

Moreover, the development of the Internet into a more and more democratic medium

after the burst of the tech-bubble could be considered in itself a sub-trend within a mega-trend and a definite game changer from all points of view. Social media became a huge part of our lives with the rise of IT giants like Facebook or Google, triggering an immense increase in the ease and agility with which we create and distribute all kinds of digital content. This particular aspect created fruitful opportunities for Millennials to become true pioneers in both production and consumption of technology.

The fact that they were brought up during the ascending years of this major societal shift makes Millennials intrinsically connected with digital media. Being highly influenced by the standardization of mobile technologies that allow people to be online whenever and wherever, Millennials are generally „more active at integrating technologies into their daily lives” than previous generations [7] and “rely on social networks as a vital part of their interactions” [5].

#### **4. Marketing to Millennials**

Beyond social communications, Millennials also welcome the benefits brought forward by social networks from a consumer perspective. They “use their mobile device and traditional internet means to connect to retailers or brands”, not being afraid to acknowledge these technologies as marketing channels [7].

As previously mentioned, Millennials are savvy when it comes to technology, sensitive to the ecological trend, generally objective, enjoying social interactions and well integrated in a highly accentuated consumerist trend. These characteristics already cast some light on how they behave as consumers, but what really defines them from this point of view is the tendency to satisfy their need for status through certain brands they choose to associate themselves with, as well as that of leveraging on online collective intelligence when taking purchasing decisions.

The first tendency is defined by Eastman as “status - the tendency to purchase goods and services for the status or social prestige value that they confer on their owners”. He further on demonstrated status consumption to be greater for Millennials than previous

generations, with it being “a homogenous factor throughout gender, income, education etc. and therefore suggesting that generational segmentation is extremely useful” [3].

Thus we receive an important clue about Millennials relating with brands and using them in order to communicate on their personal image. They will tend to “look for strong and clear brands that will carry a perception among their peers” [2]. In addition to this, given their predilection for “instant gratification” mentioned earlier, it is likely they will choose brands that achieve their specifically intended goals in a straightforward manner.

Last but not least, research shows us the Millennial consumer values opinions of peers or friends over those of experts or corporate channel induced ones. The use of mobile devices for consulting consumer reviews while documenting for a purchase decision is thus common practice for them [1]. Along the same lines, they also “consider word-of-mouth to be more important than advertising” [9] and look into forums and consumer reviews when shopping, for opinions from people they perceive to be similar to them.

Taking all this into consideration, it seems that marketing for Millennials is almost indissociable from digital marketing, which implies a shift in paradigm and channel mix in order to effectively engage with consumers from this generation.

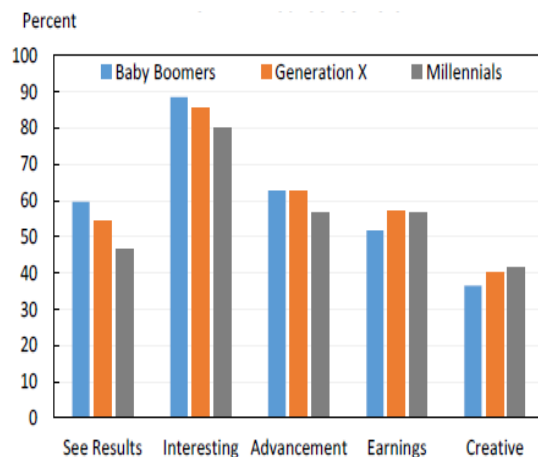
If marketers want to successfully target Millennials, they will have to rethink where and how this should be done. The biggest difference is seen in transitioning from print and TV to the internet and social media as the main communication channels. In order for companies to actively engage with GenY consumers, they will have to join them in their territory – “the digital arena” [3]. This means investing in the graphic aspect of a company’s online presence at all levels in order to capture a Millennial’s attention, developing a „personal touch” [3] that will make it easier for them to relate to the company and maybe most importantly – nurture and invest in their community of already loyal consumers, encourage them to generate pertinent and genuine content and thus set the base for attracting new Millennial customers via what truly speaks to them.

## 5. Millennials in the workplace

Millennials seem to be pretty similar to previous generations when it comes to general attitudes about work. The essence is that success and prosperity are just as important to them as for GenX and Baby Boomers, with their main motivation being the desire for their children to be better off one day. They consider creativity to be a very important job feature, more so than previous generations did, an aspect most probably determined by an upbringing highly impacted by technology. On the other hand, having an interesting job, or one where they can see results or have advancement opportunities does not seem to rank among their top priorities.

The graphical representation in this chart below is only one of the takeaways of an objective study on Millennials conducted by the Council of Economic Advisers at the White House, with high-school seniors as a representative sub-group among the Millennials[13]:

*Figure 2: „Very Important” Job Characteristics Among High School Seniors*



Source: 15 Economic Facts about Millennials, Oct 2014 [13]

Another soft aspect can be deduced building on evidence from the above-mentioned report: as Generation Y enters the working arena, they bring along not only “positive traits such as high level of education, technical skills, more acceptance for diversity within organizations and huge achievement potential” [6], but also a set of peculiar work-related attitudes determined by

their unique mix of generational marks and making them into a particularly challenging cohort to manage effectively and motivate on a continuous basis.

One of these is an increased level of individualism among Millennials, entailing above average confidence, a high sense of entitlement and, unfortunately, more often than not a distorted perception of the connection between performance and rewards; all these factors tend to lead to unrealistic demands by Generation Y from the workplace, which in turn constituted the spring of multiples personnel management challenges [10].

But since the first batch of Millennials is only in its early years of active life, this is still considered uncharted territory. Only time will bring more empirical evidence and the possibility of more in-depth studies to comprehensively paint the picture of Millennials at work and the best strategies for this generation’s leaders.

From an intuitive standpoint, we believe GenY should be offered a creative work environment and the possibility to get involved in the decision-making processes within organizations. This should allow them to experience a true sense of empowerment and that of belonging to a team, which will build on their positive traits and give birth to a virtuous cycle. All this constitutes merely interesting hypothesis to be tested and validated by future research.

## 6. The dawn of a „sharing economy”

The Millennial generation has brought about not only shifting ways of communicating and using technology or in their attitude towards work, but also in how they see the world and how they choose to spend their lives, bringing a whole set of new layers to what we call behavioral economics. These transformations can be seen in all aspects of a Millennial’s life-style, from their stand on marriage and homeownership to how they stay fit and healthy. All this in turn determines tremendous turmoil in the business world, with revolutions of whole industries and companies being forced to adapt or perish.

For instance, a Goldman Sachs Global Investment Research study[14] shows that Millennials have been putting off significant

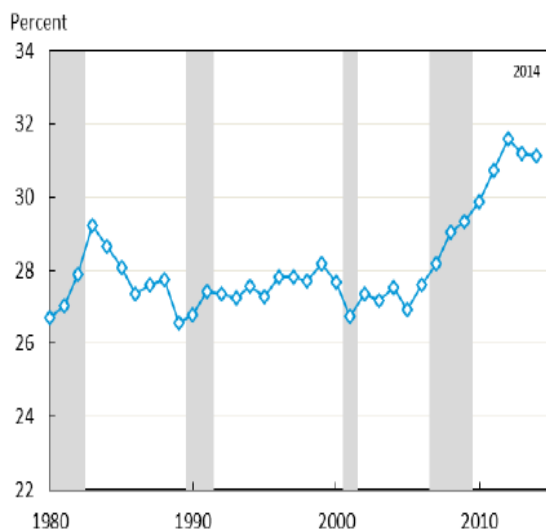


milestones like marriage and children. They do want to find a partner at some point, but they tend to take this big step later in life (around the age of 30 nowadays, compared to 23 in the 1970s, according to this body of research).

This trend is consistent with that of “leaving the nest” later than previous generations have and putting off more and more the idea of buying their own house. There are some underlying factors to this: first of all, due to Millennials specific generational traits, there is a stronger relationship between them and their parents, who tend to be more involved in their children’s lives than in the case of other generations. Moreover, we are barely recovering from a major economic recession. Therefore, people valuing closeness to their families will be even more likely to continue living with them even after reaching adulthood, particularly if they continue to rely on the family members for housing and other financial support during their higher education years.

Taking again the example of the US, we believe this trend is an obvious one, as the chart below shows it:

*Figure 3: Share of 18 to 34 Year-Olds Living with Parents*



Source: 15 Economic Facts about Millennials, Oct 2014 [13]

And the discrepancies go beyond where they choose to live: Millennials have also been reluctant to acquiring items such as cars, music and luxury goods in general.

Instead, they’re turning to a new set of services that provide access to products without the burdens of ownership, giving rise to what’s being called a “sharing economy.” This challenges traditional business models across the map, causing imminent restructuring of common fields but not only. One great example of this is “crowd funding” an online phenomenon enabling entrepreneurs to raise capital from different sources, normal people included, rather than relying on traditional sources like banks or venture capitalists to start and grow their businesses [4]. And such examples can be seen in all sorts of other fields, like Airbnb for travel and accommodation, BlaBlaCar or Uber for transportation and the list could go on and on.

Last but not least, wellness is a daily, active pursuit for Millennials. Surveys concluded they commit to more exercise, take smarter decisions regarding what they eat and smoke less than their parents or grandparents. This is an aspect of their lives where they are willing to spend significant amounts of money for compelling brands that satisfy their needs precisely. With all the online data, apps and users review available online, they are able to find all the information they need to either track their training sessions online, find the best places for healthy food or simply get educated about their improved lifestyle aspirations.

All of these aspects seem to fall along the general lines of quality of life being the focus of this generation: beyond valuing staying close to family and friends, Millennials want to have free time for recreation to cherish with them, while works falls on a secondary step in their hierarchy of priorities. Their professional activities should nevertheless be encompassed in creative jobs, through which they can have a positive social impact on their communities, as well as on society as a whole [14].

## 7. Conclusions

With the Millennial generation and its unique set of characteristics and attitudes reaching their prime working and spending years, it is expected that they will have a significant impact on the global economy as a whole, through the emerging trends they seem to impose.

Millennials have come of age during a time of technological change, globalization and economic disruption, setting them up for a different set of behaviors and experiences than their parents. They're also the first generation of digital natives, with a definite affinity for technology, social media and permanent connectivity. All of this shapes how they shop and interact as consumers almost dramatically, with instant access to price comparisons, product information and peer reviews as the new norm.

Millennials have been slower to marry and move out on their own, and have shown different attitudes to ownership that have helped spawn what's being called a "sharing economy". Finally, they are dedicated to wellness, devoting time and money to exercising and eating right and basically influencing every industry through their active lifestyle.

Their unique generational traits, attitudes and life-style choices will definitely bring about many changes in all sorts of fields. We find it extremely interesting and challenging from a scientific point of view to keep an eye on Millennials and maybe try to predict certain disruptive economical trends with the help of behavioral economic models. Last but not least, we are certain that years to come will allow a better understanding of how Millennials interact in the work place at all levels; new data in this area will be essential in shaping more current theories in organizational psychology and personnel economics, which in turn will lay the basis for more efficient leadership strategies.

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## Financing Green Energy in Romania

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### Abstract

*Improving energy efficiency refers to a reduction in energy used for a given service, usually associated with technological change, better organization and management or improved economic conditions. In our study we focus on how different financing programmes or options facilitate the development of these parameters that enhance energy efficiency. Consequently, this study wishes to approach the challenge of presenting the background of the actions of financing energy efficiency projects in Europe, as well as covering the existing such programs in Romania, providing insights on the most popular financing instruments on the market. Based on information received from experts (managers from energy sector) in Romania, this paper empirically explores the range of financing instruments available on the Romanian market, existing funding programs and the accessibility of these financing solutions for developers of energy efficiency.*

**Keywords:** energy efficiency, financing schemes, green energy, financial risk

**JEL:** M1

### 1. Introduction

The environmental change acts as a catalyst for all countries to diversify their energy efficiency projects and involve technology, institutional support, private sector initiative and a pool of innovative financing sources in the challenge of building a cleaner environment. Hence, achieving energy efficiency improvements requires a combination of technology development, market mechanisms and government policies that can influence the actions of millions of

energy consumers, from large factories to individual households. [1]

Improved energy efficiency is a critical response to the pressing climate change, economic development and energy security challenges facing many countries. But achieving energy efficiency improvements can be difficult, since it requires a combination of technology development, market mechanisms and government policies that can influence the actions of millions of energy consumers, from large factories to individual households (Energy Efficiency Governance: Handbook, 2010).

### 2. Scope of research

The literature is rich in studies regarding the role of market forces in delivering energy efficiency, and how market-based instruments play a central role in most national energy efficiency policies [1], but a lesser attention was given to the instruments and programs dedicated to financing energy efficiency initiatives in an unitary manner, and the gaps between the existing programs and the actual needs of the actors in the energy market. Furthermore, we target a practical study on the diversity of financing instruments used in the Romanian market and the extent of accessibility of energy efficiency actors to these instruments. We based our study on feedback from experts in Romanian energy landscape, respectively small or larger companies in the business.

### 3. Methodology of research

This study is based on a qualitative research approach. The results in our research rely on the Delphi technique and semi-structured interviews. The Delphi process relied on a meeting hosted by the Romanian Photovoltaic Industry Association

in February - April 2015 which gathered 31 experts in the field, representing stakeholders in the energy business: managers and middle managers in consulting, design, installation firms or from key equipment suppliers. This gathering was facilitated by one author of this study who is the CEO of a company active in the development, design and construction of photovoltaic electric stations, which is the biggest producer of Romanian PV and supply of electricity. The main themes approached during these discussions were the limitation of existing financing sources on the Romanian market, the eligibility criteria relates to accessing those sources and finding or defining innovative financing solutions. To analyze the data collected we used the transcription process, during which the main themes regarding the most popular financing sources, the most accessible and least accessible financing instruments, the barriers to accessing the financial resources were identified.

#### 4. Theoretical background

##### 4.1. The prominent impact of energy efficiency

According to the International Energy Agency, improved energy efficiency in buildings, industrial processes and transportation could reduce the world's energy needs in 2050 by one third, and help control global emissions of greenhouse gases. [2].

Efficient energy use is essential to slowing the energy demand growth so that rising clean energy supplies can make deep cuts in fossil fuel use. A sustainable energy economy requires major commitments to both efficiency and renewable. [3]

The Energy Efficiency Governance: Handbook [1] highlights what the main drivers for pursuing energy efficiency and the corresponding barriers to energy efficiency implementation are, as presented in Figure 1:

Figure 1: Driver and barriers for energy efficiency

Drivers of energy efficiency policies		Barriers to energy efficiency	
Driver	Typical objectives	Barrier	Example
Energy security	Reduce imported energy	Market	Market organization and price distortions prevent customers from appraising the true value of energy efficiency Split incentive problems created when investors cannot capture the benefits of improved efficiency Transaction costs (project development costs are high relative to energy savings)
	Reduce domestic demand to maximise exports		
	Increase reliability		
	Control energy demand growth		
Economic development	Reduce energy intensity	Financial	Up-front costs and dispersed benefits discourage investors Perception of investments as complicated and risky, with high transaction costs Lack of awareness of financial benefits on the part of financial institutions
	Improve industrial competitiveness		
	Reduce production costs	Information and awareness	Lack of sufficient information on the part of consumers, to make rational consumption and investment decisions
Climate change	More affordable energy customer costs	Regulatory and institutional	Energy tariffs that discourage investments Incentive structures encourage energy providers to sell energy rather than invest in cost-effective energy efficiency Institutional bias towards supply-side investments
	Contribute to global mitigation and adaptation efforts		
Public health	Meet international obligations	Technical	Lack of affordable energy efficiency technologies suitable to local conditions Insufficient capacity to identify, develop, implement and maintain investments
	Reduce indoor and local pollution		

(Source: Energy Efficiency Governance: Handbook, 2010)

Analyzing the barriers above, they often converge around the idea of cost and financial pressure, making it the most overpowering obstacle hampering energy efficiency developments: price distortions, transactions costs, up-front costs, financial benefits, cost-effective energy efficiency, financial capacity.

Further on, our study is focused on documenting how this financial barrier is mitigated through an array of solutions.

##### 4.2. Financing instruments for energy efficiency in Europe

There are three main ways to finance energy efficiency projects: Self-financing, Loans, Third-party financing.

Rezessy and Bertoldi [4], in their report on financing energy efficiency, Report prepared by the Joint Research Centre of the European Commission, provide a comprehensive overview on the financing instruments available. We hereby cover the main instruments presented in the study.

Through a loan, the borrower initially borrows the amount needed (the *principal*) to finance the project, and is obligated to pay back the loan (along with the cost for borrowing the money— the *interest*) in regular instalments..

Third-party financing is provided by an entity other than the two main parties in a contract; in this case, anyone other than the building owner or construction contractor.

**Debt financing** refers to the acquisition of funds by borrowing: a lender provides capital to borrower for a defined purpose over a fixed period of time. Debt options include corporate or project loans under recourse or limited recourse structures, leasing arrangements and full or limited guarantees.

**Equity financing** refers to the acquisition of funds by issuing *shares* of common or preferred stock in anticipation of income from dividends and capital gain as the value of stock rises. Private equity is essential for growing businesses that want to expand their activities, as well as for large-scale project developers.

**Subordinated debt financing**, sometimes called Mezzanine Financing, is capital that sits midway between senior debt and equity and has features of both kinds of financing. Subordination refers to the order or priority of repayments: subordinated debt is structured so that it is repaid from project revenues after all operating costs and senior debt service has been paid. Subordinated debt financing is generally made available directly from insurance companies, subordinated debt funds, or finance companies.

**Vendor financing** helps the manufacturer sell its product by facilitating financing of a customer’s purchase. Vendor financing occurs when a financier provides a vendor with capital to enable them to offer "point of sale" financing for their equipment. Leasing is the most common form of vendor financing.

An **energy mortgage** is a mortgage that credits a home's energy efficiency in the home loan. For an energy efficient home, for example, it could mean giving the home buyer the ability to buy a higher quality home because of the lower monthly costs of heating and cooling the home. For homes in which the energy efficiency can be improved, this concept allows the money saved in monthly utility bills to finance energy improvements.

**Integrating loan payments with energy bills** and allowing utilities to cut off energy supply to defaulting customers has the potential to both lower collection costs and enhance credit quality of the financing scheme, thereby lowering financing costs. Other supplementary finance mechanisms include public finance mechanisms, policies and programs.

**Grant** programs (investment grants or interest rate subsidies) are often provided by governments to support the upfront cost of energy efficiency projects that may entail too high investment costs and long amortisation periods.

**Soft loans** are commonly used for energy efficiency measures. Loan conditions include: extended payback periods, low or zero interest rates, short-term interest deferral periods, and/or inclusion of payback grace periods.

**Revolving funds** offer loans that can be repaid with the extra cash available due to energy savings. The repaid loans are used to finance new EE projects.

**Taxation** can be a powerful tool to stimulate energy efficiency by giving incentives to invest in such projects through tax exemptions and through incentive regimes related to e.g. capital gain tax, property tax, VAT and accelerated or free depreciation. [4]

### 4.3. Financing green energy in Romania

In Romania, the most common financial products used are commercial loans, soft loans and grants/investment subsidies. The majority of EE projects financed are in DH and CHP, as well as industry, street lighting and private residential buildings.

The most popular financing program in Romania is EU EBRD Romania SME Sustainable Energy Finance

Facility (RoSEFF), a 60 Million Euro programme to help Small and Medium Sized Enterprises (SMEs) and housing associations invest in energy efficiency and renewable energy solutions. The EU is the RoSEFF donor – providing non-reimbursable financing to support operation of the facility and to pay Incentive Payments (EU Grants) for SMEs who invest in energy efficiency and renewable energy. Participating financial institutions are Romanian banks who have borrowed part of the 60 million Euro loan fund to on-lend to their SME customers who invest in sustainable energy (BCR, BRD, Banca Transilvania si Unicredit Tiriac). The beneficiaries of this program are Romanian SMEs, Romanian housing associations, Manufacturers of energy efficiency and renewable energy technologies, Suppliers and installers of energy efficiency and renewable energy technologies.

The European Commission, in partnership with the EIB (European Investment Bank) has launched two new financing instruments to support energy efficiency projects through the European “Life” program. The first instrument is Private Funds for Energy Efficiency (PF4EE), which offers 80 million EUR for 2014 – 2017, to SMEs, individuals, municipalities and other public sector institutions. The loans can vary between 40.000 EUR and 5 million EUR. The second instrument is the Natural Capital Financing Facility (NCFE), offering funds for projects

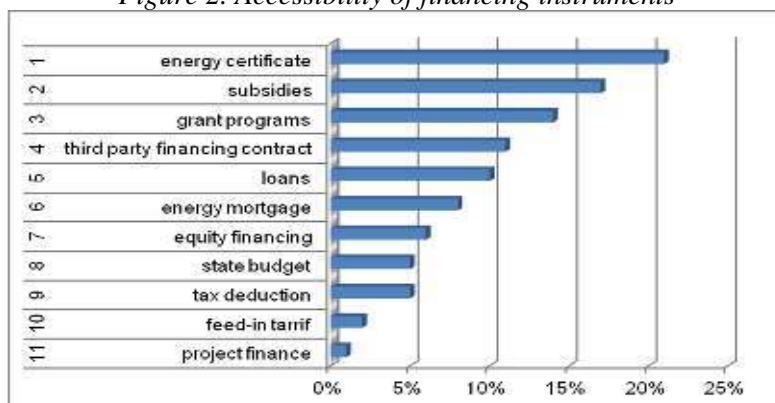
that protect natural capital and climate change adaptation. The budget for these projects is 100-125 million EUR for a period of time until 2017. The European Commission offers to collateralize the investment until 50 million EUR and finances a support instrument of 10 million EUR to help boost the projects.

## 5. Results and discussions

In our research, based on existing evidence about financing options on the Romanian market for green energy, we have directly interrogated 31 experts in the field of energy efficiency about the limitations of existing financing sources, the eligibility criteria in accessing these finances and practical suggestions for innovative solutions for financing this market.

We have documented that the following actors can provide sources of capital for green energy developers: the government, banks, building owners, building occupiers, renovation contractor, energy supplier. The funding can be provided in terms of a loan, subsidy, grant, third party financing contract, energy certificate, tax deduction. We have enquired our expert group about the popularity and accessibility of several financing instruments by asking each of them to rank the first three most accessible according to their experience. The results are presented in the Figure 2:

Figure 2. Accessibility of financing instruments



Source: the authors.

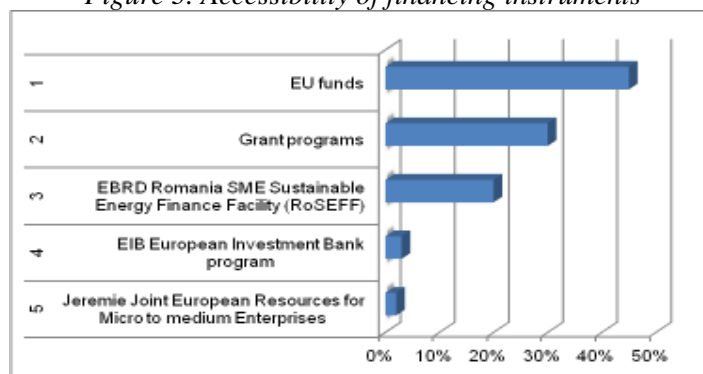
Energy certificates are mentioned as the most popular financing support scheme (21% of the respondents ranking them first),

followed by subsidies (17%) and grant programs (14%). In Romania, feed-in tariffs and project finance turned out the least used financing instruments in the process of

boosting energy efficiency and financing related projects. In terms of the most popular financing programs existing in Romania for

energy efficiency developers, we have acquired the following results (figure 3):

Figure 3. Accessibility of financing instruments



Source: the authors

EU funds and grant programs have the highest penetration rate on the Romanian market, according to the experts interviewed. The most popular EU banking partnership is the EBRD Romanian SME Sustainable Energy Finance facility, funds being disbursed currently through four banks.

The expert group unanimously agreed that there are numerous barriers to developing energy efficiency project but financing is the biggest one.

Financing barriers arise because energy users are generally unwilling to invest their own funds in EE projects; they have many of what they consider to be higher-priority investment options for their funds. Most energy users, including large industrial firms,

small and medium enterprises (SMEs), commercial sector energy users, and public agencies, therefore, seek external financing for their EE projects. However, banks and financial institutions (referred to herein as local financial institutions or LFIs) are generally reluctant to provide loans even for highly profitable EE projects because of their lack of knowledge and understanding, and their perception of high risk with respect to EE projects. [1]

The barriers create a mismatch between current lending offers existing on the Romanian market and the actual financing needs of the energy efficiency stakeholders.

Figure 4. Barriers to financing energy efficiency

Barrier type	Barrier description
Eligibility	tough eligibility criteria required by the banks to access loans - high financial ratings
	collateralization - oversized guarantees requested
	lack of interest from the bank side to finance activities without a strong history
Cost	high costs in accessing a bank loan
	beaurocracy - high volume of paperwork needed to prove strong economic status - time cost
	long payback time - time cost
	lack of state budget - lack of funds to be allocated to energy efficiency development
Awareness	reluctancy of banks in financing start-ups
	the public and private sector lacks staff in energy efficiency field
	lack of banks knowledge on EE projects, considered high risk
	lack of communication between project developers and financing actors

Source: the authors.

There are three major types of barriers that we were able to break down the experts opinions into – eligibility criteria required by

banks, cost barriers and lack of awareness on energy efficiency field.

Our experts showed there are few financial institutions capable of providing medium term financing solutions. Moreover, they are highly reluctant in granting loans to green project due to their little experience on financing this industry and lack of awareness or knowledge in the purposes of such initiatives. The high risk perceived by banks is reflected in high administrative costs of the loans offered or inaccessible eligibility criteria, requesting a high financial status of the company assessed or of oversized collaterals.

However, one big obstacle is that economic and legislative instability, on top of a not motivating institutional background, makes new investments risky.

Still, the experts highlighted during the interviews that a part of the legislative burdens and barriers related to the legislative

environment have been partially eliminated through the Law 121/2014, which mentions the utter necessity of removal of all barriers to promoting energy efficiency.

Our final scope of the study was to identify practical innovative financing solutions suggested by the experts in energy efficiency field.

From our research conducted on the experts group interviewed, innovative scheme to finance energy efficiency should have the goal of risk reduction and financing the stability of the project itself. The majority of opinions revolved around the necessity of defining new financing products and assessment tools, adapted for the benefit of the stakeholders, given the current limitation of the existing instruments available and low accessibility rate (Figure 5)

Figure 5. Innovative financing solutions for energy efficiency

Innovation developer	Innovative financing solutions
Banks	diversification of Bank credits with governmental warranty
State	economic incentives from state budget
	more funds for research and innovation on energy saving technologies
Private agencies	energy agencies and climate protection agencies involvement
	Romanian Fund for Energy Efficiency

Source: the authors

Innovative measures in the area of green buildings would refer to an energy efficiency levy or Energy Efficiency “Feed-in tariffs” (FiTs). This is in principle similar to the promotion of renewable through feed-in tariffs – while energy saving obligations are the equivalent to quote systems for renewable - and has the substantial advantage of financing stability and risk-lowering. [5]

Our experts consider there are three main innovation developers who should develop new financing options for energy efficiency market: banks, the state and private agencies. Banks should develop customized financing facilities in order to cover the current barriers of accessing their facilities – cost of financing, oversized collaterals required, inflexible eligibility criteria, high risks associated with the energy efficiency field, lack of knowledge regarding this industry. The state should also allocate a higher volume of funds for research and innovation in energy saving technologies, as well as

defining some economic incentives. Romanian Fund for Energy Efficiency is perceived by our expert group as a main actor in the energy field, with strong capacity of increasing awareness and raising pressure on the importance of overcoming the financing barrier for energy efficiency developers.

## 6. Conclusions

The present research has shown the energy efficiency projects in the Romanian landscape meet considerable barriers in their financing endeavours and require increase awareness and innovative financing solutions to be designed and adapted to the actual needs of the stakeholders.

On the basis of inputs of 31 experts in the energy field in Romania (managers and middle managers in consulting, design, installation firms or from key equipment suppliers), this paper has empirically explored the array of financing instruments available on the Romanian market, as well as



the existing financing programs, and the extent of accessibility of such financing solutions for the energy efficiency developers. Within the research, our work highlights that there is no certain financing structure applicable to all projects aiming to energy efficiency, while in Romania this financing options are still limited and need further customizing in order to fit different need of specific customer markets.

#### **Acknowledgement**

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## Explanatory Models of Consumer Behaviour from a Psychological Perspective

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### Abstract

*Consumer behaviour reflects people's behaviour when buying and / or consumption of goods and services, calling for the investigation to an interdisciplinary approach fundamentally different because of the nature of the acts and decision-making processes that compose it. The way people behave economically is the result of accumulation of life experiences under the influence of mobility and plasticity needs. The paper aims to present existing explanatory models of consumer behaviour in the literature as a means of explaining the specific behaviour patterns. Consumer behaviour reflects people's behaviour when buying and / or consumption of goods and services, calling for the investigation to an interdisciplinary approach fundamentally different because of the nature of the acts and decision-making processes that compose it. The way people behave economically is the result of accumulation of life experiences under the influence of mobility and plasticity needs. The paper aims to present existing explanatory models of consumer behaviour in the literature as a means of explaining the specific behaviour patterns.*

**Key words:** *behaviour, consumer, satisfaction, marketing, services*

**J.E.L. classification:** L84, M31, Z13

### 1. Introduction

Consumer psychology begins with the study of advertising, which is designed to inform consumers about products or services available on the various ways in which they can meet his own needs. Consumer study is necessary in order to communicate in two directions: both from the consumer to the

producer and vice versa. Buying behaviour is an explicit answer, but less differentiated in the advertisement. We can say that is not an answer, but rather an indicator of response response symbolic message. influence of social pressures. The behaviour is the result of a complex interaction also the many factors with prevalence ranging from one subject to another. References to meet consumer's rational behaviour in neoclassical perfect rationality principle, that all consumers fail to consume goods whose marginal utility is lower than an equally good choice and available. [1]

### 2. Explanatory models of consumer behaviour

James McNeal (1982) [2] proposing a generalized model of consumer behaviour, according to which the action pushes the tension that derives from a specific need. This is a model for S.O.R. (stimulus-organism-response), because it recognizes the influence on consumer behaviour factors both internal and external stakeholders. Admit purchase decision is influenced by learning and learning influences, and is also an interactionist model homoseatic and it recognizes the consumer trying to maintain internal balance and harmony with the environment, depending on the final direction of attraction to objects or services quality satisfaction promise.

Consumer behaviour is instigated by an event, which is a sensory contact with a stimulus. At any time the consumer is faced with events from his environment in his body or his mental processes, but they vary depending on the degree of the impact they have on you. Thus, these events can trigger reactions simple answer, almost undetectable by satisfying a need or response can trigger

complex processes, including even some answers. For example, a minor event retina as contact with sunshine and sand on a beach, and that can lead to very simple answers, blinking eyelids, or can trigger complex processes: awareness state of discomfort and desire for protection against the negative effects of sun and sand, and finally purchase a pair of sunglasses. These events often give rise to needs, which are the requirements for optimal living conditions. Needs exist in all people and is the basic concept in consumer behaviour.

When a need is not satisfied it creates a tension that is often not apparent undesirable condition of mental imbalance.

It is uncomfortable whose intensity is determined by the importance of the individual's need, the time required and the number of its meeting of needs unsatisfied at a time. As disturbing the subject, it will attempt to or reduce tension using a series of mental operations and represented called cognition: perception, learning, thinking and decision making.

This decision is recognition of the problem (a state of tension and the need) and selecting the best actions that will solve the problem of satisfying it and reducing tension. Personality as a vital element in the development of consumer behaviour influences. Each of cognitive processes, the main source of information used by the consumer to reduce the tension. [3].

Cognitive processes driven by personality, lead to action, understand consumer behaviour in the model as a whole to determine satisfaction physical activity walking to the store, product selection, payment, bring them home and use them. Satisfaction is the removal of stress by satisfying the need (need), dissatisfaction appears otherwise. All elements of consumer behaviour are influenced by the environment in which the person lives. An important role of marketing techniques designed to influence the potential consumer's waking needs, changing its attitudes, interfering in his cognitive processes. Even the satisfaction obtained by the action of purchase may be influenced by environmental factors. The dress bought a lot of satisfaction when a young woman is admired by friend and less satisfaction when it is admired by her father.

## **2.1. The Engel-Kollat-Blackwell model**

Koll and Blackwell they explain aspects of consumer behaviour in a decision-making model that incorporates a number of elements, perception, understanding and updating of advertising and other information related to the act of purchase, to assess the product bought used. [4]

The model consists of two parts. First, the main control unit, represents the consumer as an individual with experience, traits, attitudes, and criteria for evaluating a product. To these variables influence individual input filtering and processing information about product. A second part of the model refers to problem solving behaviour that meet the consumer's needs by choosing and buying a particular product or service [5].

## **2.2. The Marshallian model**

Marshallian model is named after its creator, A. Marshall. According to this model, purchasing decisions and actual purchase goods and / or services are aware of the effect of rational economic calculations. This theory has its origins in the writings of Adam Smith and Jeremy Bentham and starts from the concept of marginal utility values of various goods and services. Consumers rank just needs starting from marginal utility.

Marshall's theory and method proposed to measure the intensity of needs, attitudes, opinions, arguments, etc. associated human being, the consumer, the so-called "ruler to measure the money". As operational value Marshallian model requires the importance of studying price and income in marketing research and their effects on consumer behaviour change.

Fundamental merit of Marshallian model was that raises the issue of economic factors in general, explaining some of the mechanisms and processes of the "black box". Based on this fundamental model in behavioural studies included numerous economic factors, either explicitly test different behavioural reactions or to provide a foundation for the application of segmentation criteria or typology, necessary to treat fragmented markets.

## **2.3 .The Pavlovian model**

Pavlovian model is a model of consumer behaviour, which is based on learning theory. The model is inspired by physiological and psychological experiences IPPavlova. This model operates with four basic concepts: pulse; suggestion; reaction; recidivism. Impulses are needs, motives, aspirations etc. of strong stimuli, individual associates that it forces the action. The pulses can be: primary (hunger, thirst, cold, etc.) and acquired (learned) in social relations (cooperation, fear. Etc.).

Suggestions are the result of stimuli, but weaker, environmental and individual characteristics, which decide on how they react subject. The reaction is the answer, "output" configuration corresponding suggestions. Repeating the reaction is influenced by experience, while maintaining the same configurations suggestions. Relapse is to strengthen a particular reaction, but only if the experience was as expected individual. The model is useful for understanding a corner of the "black box", the possibilities they offer insight into particular problem launching a new product on the market.

#### **2.4.The Freudian model**

Freudian model of consumer behaviour is based on psychoanalytic theory of Sigmund Freud on the human being. Addressing consumer behaviour is through the mechanisms explaining this process on account of biological and cultural. In this instinct model concept has been replaced by a more careful separation of the primary pulse, is extended at the same time, the prospect behavioural mechanisms.

Motivational research consumer behaviour is required by this model, which leads to knowledge of other parts of the "black box". Motivational research focuses on the study of consumer behaviour, namely the study of attitudes. Attitude is considered a latent variable, a real psychological entity, directly observable, which is interposed between reason and action, expressed in different behaviours.

Indices used to measure attitudes are attitudes towards force attitude, its centrality in the subject structure, coherence and specificity, the emergence of attitudes, attitudes related to opportunity and

environmental demands of the individual belongs. Closely related to attitude problem arises and opinion, which is verbal expression thereof. In research there are many distortions caused by disturbances reflect the opinions attitudes fostered by the social environment and the market, between attitude and image in "mirror" interposed factors often alter attitudes knowledge.

#### **2.5 The Veblenian Model**

The Veblenian is a social psychological model that suggests a specific point of view, the development of motivational research related to study consumer behaviour. The model was developed based on the concepts of Thorstein Veblen and is based on the theory of conspicuous consumption and posits the idea of determining consumer behaviour both in terms of motivation not imposed by needs, but due to the desire of obtaining a certain prestige. Veblenian The underlying theory argues the need to complement motivational research on consumer behaviour with studying social influences exerted on it. If Freudian model suggested the need motivational research consumer behaviour from the "inside" of the individual, veblenian model proposes that the same process taking into account external incentives related to social influences on behaviour.

The levels at which society influences consumer behaviour are [6]: culture, subculture, social class, reference groups, groups belonging.

Culture is the level at which some of the most durable prints influences consumers assimilating the basic elements of culture, living through the properties of traditions, customs and values. Subcultures are regional entities. Social classes involve actual power configurations discriminatory behaviour, qualifying them as an independent variable.

Reference groups are social entities in which the individual is not a member, but it is identified. Reference group influence on consumer behaviour is less intense and less stable compared to other behavioural variables. In the groups belonging consumer behaviour is influenced decisively by the company. A special role in family groups belonging returns, which explains fixing

units as research entity for multiple aspects of consumer behaviour.

## 2.6 The Hobbesian Model

Hobbesian model of consumer behaviour, also called factors of organization, highlights a different perspective on the "black box", the behavioural mechanisms and processes. English philosopher Thomas Hobbes developed this model. The Hobbesian raises the issue of consumer behaviour related people representing organizations. This pattern of behaviour puts attention on goods and services for institutionalized collective entity. In this type of question consumers purchasing decisions are made on goods or services, the specificity of such decisions being marked by the type of organization. Such decisions are taken under certain conditions by persons specifically designated, and in others the collective management of various organs[7].

Practical applications of this model are important, given the very broad market they represent. The complexity of this type of consumer behaviour study is enhanced by the wide range of products and services specific organizations.

Hobbesian model proposes two different views:

- predominance of rational reasons related to the interests of the organization;
- preponderance of personal reasons.

The truth is somewhere in between: as attached as an individual in the organization part in decision-making on purchase of goods and services that are reflected in its competence and training, its aspirations, its value judgments etc.

## 3. Conclusions

All models above tries to explain the relation between consumer behaviour and purchasing decisions of products and services and Cognos mechanisms involved in this process.

From this description may result in multiple interpretation of consumer behaviour:

- Consumer behaviour is dynamic
- changing and evolving;
- Interaction determines consumer behaviour: it is necessary to know what

consumers think (perception), I feel (impression) and what they do (conduct);

Consumer behaviour determines exchanges between human beings, such trade can take place only when the transaction, both operators (seller and buyer) satisfy their mutual interests

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## Performance management to civil servants

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### Abstract

*Getting professional skills through an appropriate performance management is necessary for all institutions to ensure the promotion of public administration officials at a good level, to achieve a close relationship, on the one hand between the education and research, and on Moreover, between the latter and practice.*

*It is necessary to identify and verify the knowledge, skills and experience various administrative personnel, given the constant changes that occur in public administration in Romanian society and internationally, including the realization that some groups are arranged training other professional training and specialization, while others cultural change in the professional community, due to the new wave of changes in the administrative context.*

**Key words:** *behavior, performance, human resources, skills, evaluation*

**J.E.L. classification:** L25, J24, J45,

### 1. Introduction

We emphasize at the outset that the efficiency of public services administration, is determined not only by material and financial resources at its disposal, but especially its human potential. An administrative system has sufficient material and financial resources, the necessary administrative law can not perform its functions without well-trained civil servants and managerial. Given that the construction of administrative decisions depends on the quality administration is urgent attention be given to the training of civil servants needed in this important area of political, economic and social life of a state.

The fact that the means of action and areas of public administration are different determine a qualification, performance management aligned with government standards organizations from countries with strong democratic traditions. Regardless of ways to promote the fact that the value of an administration, its efficiency, depend largely by people who compose it, should be considered as achieving complete theoretical and practical performance.

Raising the performance of public administration organizations, promotion of civil servants performance, so a good performance management applied their related institutions, requires thorough knowledge about law and administrative science, knowledge specific to the authority, experience, easy to implement in practice knowledge gained during intensive learning process innovations in the field of public administration, including intellectual skills. [1] Administrative organizations that have an adequate philosophy in performance must operate at a level where advantage is achieved only with the training of civil servants and moral high quality performance, therefore it is necessary to invest in human resources of public institutions to develop skills and knowledge. [2]

### 2. Performance evaluation of civil servants

Evaluation of civil servants in Romania is performed annually at the level of two components: assessment of the level and how to achieve individual targets set out in the job description or assessment of the achievement of performance criteria. Their performance is difficult to measure because of objective and subjective limits that we point out in connection with the specification of the legislative act quoted above. The requirement to conduct systematic evaluation activities of

the civil servants and the general rules that apply to them are set out in EU legislation. Organize and conduct an evaluation involves much more than observing from outside and making an independent assessment of the program in question. One of the most complex issues facing professional evaluators refer to establish how they will perform the work and how they will identify and formulate conclusions and recommendations of the evaluation. The methodology chosen for the evaluation of the program is of vital importance in ensuring the transparency of the exercise. The nature of work (which involves an assessment or judgment of the merits of an intervention) may result in public managers to look for justifications, are less enthusiastic about the evaluation work. It is therefore vitally important that evaluators can show that they adopted a thorough and credible methodological approach in the assessment. Evaluation activity is closely linked to the monitoring process, since data obtained from this process is one of the sources of information used in the evaluation. The evaluation examines however many more aspects than on the extent to which financial and physical progress made at some point in implementing the program are on schedule.

For evaluation work to meet the goals pursued by the complex process at EU level of 5 criteria were used in any evaluation exercise. These are: relevance, efficiency, effectiveness, impact, sustainability. [3]

Assessment exercises not necessarily examine all five evaluation criteria. The multi-annual programming and monitoring system allowed the development of an "evaluation cycle" aimed at programming exercise. Consequently, the five evaluation criteria are not necessarily considered in any assessment, but are adapted to the time at which intervenes evaluation stage of program implementation and evaluation objectives. [4]

### **2.1. Impact assessment using performance management systems across the organization and public department.**

It should be made based on the degree of:

- establishing a performance management system understandable and useful
- achieving the objectives set

- recognition of the achievements of the public information by management and civil servants
- establishing a performance management system understandable and useful
- achieving the objectives set
- recognition of the achievements of the public information by management and civil servants

### **2.2. Impact assessment using performance management systems level civil servant.**

It should be made based on the degree of: Impact assessment using performance management systems level civil servant .It should be made based on the degree of:

- Individual development plans Performance
- achievement of individual performance plans
- align individual performance plans with organizational goals
- developing a performance-oriented organizational culture

In this respect we have examples: were observed increases in yield due to the technical performance of civil servants equipment purchased and their effective joint also observed an improvement in their physical condition, thanks to the set of ergonomic furniture.

Customer performance module has been successfully implemented and is used by most civil servants being reduced search time on different units of information related to citizens. Decreased the chances of error and consolidated data were essential for improving public service.

### **3. Simulation using performance management systems level civil servant**

To understand the concepts of systems thinking in organizational context of public administration, simulation is a unique experience of understanding of resource flows and the importance of coordination of transpromovare internally. Shadowing is how best to facilitate the performance process.

- This simulation aimed at: Integrating strategy and performance management in a process based on adding value;
- Manage performance by improving the processes of accumulation of knowledge in administration;

- Creating reports relevant performance - the importance of data visualization;
- Identify key success factors for solving problems relating to public administration and measurement of their impact on performance management at the operational level;
- Correct identification of indicators used to measure performance at departmental level;
- Assess the performance of officials - from personal development to organizational performance;
- Motivation officials - essential ingredient in individual performance management;
- Monitoring and evaluating performance at the individual and about the reward and bonus.
- Orientation people to teamwork and achievement of common goals.

Developing systemic thinking and applying its principles, cooperation skills, including good management decisions, placed in a broader context, the variables will lead to optimizing the effectiveness of civil servants in the institutions. [4]

Evaluation and teamwork skills, adaptability, innovation and flexibility will lead to stimulating participants to visualize the effects of decisions taken within the whole system and its implementation based on reliable data. All this is leading to civil servant requested performance, efficiency administrative authority concerned. Therefore, it was necessary to use performance indicators as a means of motivation, evaluation and reward the activities of public officials. Thus was established a system of performance indicators based on the criteria developed by the National Agency of Civil Servants. At the beginning of each year, heads of departments shall notify each public official in writing the performance criteria appropriate to the category, grade and class occupied by the civil service. The evaluation of individual professional performance, the civil servant is given one of the following qualifiers: "exceptional", "very good", "good", "satisfactory" and "unsatisfactory".[5]

#### **4. Benefits of performance management for government organizations**

Managers who will know how to identify needs and define training requirements, analyze and select external promotional offers to organize itself internally training sessions

Group of mentors trained and authorized to conduct training programs where the number of large and ready to be upgrading is high frequency

Ability to provide these services and for potential external customers<sup>3</sup>. Benefits of performance management for public organizations administrației

Managers who will know how to identify needs and define training requirements, analyze and select external promotional offers to organize itself internally training sessions

Group of mentors trained and authorized to conduct training programs where the number of large and ready to be upgrading is high frequency

Ability to provide these services and for potential external customers

To introduce a new culture of management in public authorities, in which a large part of senior officials do not know the theory and best practices in management, still need continuous management development programs, systematic. In this context, the experience can be taken in other European countries, this system is implemented in Romania - where, until appointment or shortly thereafter, drivers are required to attend specialized training programs and get certified.

#### **5. Psychological factors influencing performance level performance under the effect of trust in management[6]**

There are two major ways in which confidence levels is linked to performance management:

- Maintaining motivation for performance.
- Psychological comfort and attention focused on the work done



### **5.1. Maintaining motivation for public activities**

In addition to the intrinsic motivation of any professional activity an official must have a minimum stay of extrinsic motivation for the work they submit. The transaction must be fair and effort rewarded accordingly.

This is more of an expectation, a kind of psychological contract, and not initialed an agreement in writing, because no official relationship with the organization that controls are. When a public official working more, it depends on the capacity performance evaluation system to capture this additional effort.

If the system fails to capture additional contributions, civil servant is not material reward for his work. This could decrease the level of confidence in those responsible, within the organization, this refuge of the evaluation system. Conversely, when system performance evaluation seems appropriate to reflect officials published, confidence in those responsible for the performance evaluation system will increase. Further, if, while properly assessed civil servant receives a reward merit and the extent of its assessment, frustration will quickly turn into motivation and will, consequently, decrease professional effort as a result of cognitive dissonance felt. [4]

### **5.2. Psychological comfort and attention focused on work**

There are a number of theories empirically supported, cognitive psychology about the human capacity to process information: people have limitations in terms of "cognitive resources and attention resources". Any intense and persistent mental concern is able to distract the public from official work performance.

If we speak of a simple activity, distraction not greatly affect performance, but the impact is much greater on performance in complex tasks that require cognitive resources increased.

A lack of trust in management is the source of a multitude of distracting thoughts persistent and intense, the civil servant depart attention and energy from activities that have a positive contribution to the organization. From a position of vulnerability which is

linked with the organization or management, civil servants will feel the lack of confidence when it occurs; his cognitive resources will focus on issues nonproductive, or other self-centered attitudes and behaviors secure. Obviously, the presence of trust in the manager does not guarantee performance, it still remains dependent on a number of other factors: knowledge, skills, abilities, organizational support, motivation etc. [7]

Among the attitudes and behaviors secure, the most important public officials are in the direction of her self that focuses on proactive information and documentation close to endorse his performance alongside other influential people in the organization. Often it is a losing strategy, which has only a kind of placebo effect, but it is a strategy that takes seriously diminish the yield performance of public activities. An attitude of concern diminishes concentration, since a civil servant spends more time and energy worrying about what his manager could do against its interests, so that civil servants will have fewer cognitive resources to file efforts towards performance. There are a number of theories empirically supported, cognitive psychology about the human capacity to process information: people have limitations in terms of "cognitive resources and attention resources". Any intense and persistent mental concern is able to distract the public from official work performance.

### **6. Conclusions**

Performance management, education and training in the new administrative context will be concentrated primarily on the development and cultivation of skills required, only the automatic sending of knowledge considered, often generally applicable. Major deformations produced in the management culture of public officials resulted in poor development of leadership capacity, improvisation at the expense of professionalism, but also to avoid accountability to the performance of the public. Competence, marks the end of an ongoing process to promote civil servants' performance, it is necessary for achieving efficiency in the administrative system, ie, the prediction of future developments, organization of resource management,

motivation and control officials published the conduct of administrative processes . [8]

It requires a process of development and management performance management, which should give civil servants the opportunity to perform at optimum level and to encourage understanding of responsibilities associated with ongoing communication channels occupied by each officer, assuming priorities and correlating factors of implementation in practice , performance management strategy. This involves adopting a management style that encourages communication between officials and management, feed-back frequently in both directions and foster teamwork, something that will eventually bring a positive image of public administration organizations by promoting performance, so high quality public services for the community.

Any public is included in a specific environment, influencing and conditional actions and decisions leading factors. Depending on external factors, the management of the institution decides on short and medium term priorities and takes into account both the risks and associated mitigation measures such as the opportunities here emphasize the need to improve civil servants acid, which can promote positive activities of the institution, into a well defined time horizon, of course, all this is directed towards providing quality services that are correlated with the general public interest.

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## The Impact of Legal Form on Tax Liability of Economic Entities

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### Abstract

*The issue addressed in this paper is a starting point "dilemma" of entrepreneurs who are just starting out on choosing the legal form of business organization. To see which form of organization is the right destination for small business, the entrepreneur must know the "advantages" and "disadvantages" of each type of economic entity from the point of view of the costs involved in the establishment of business, but especially for its performance, subject to the application of accounting regulations and tax (taxes and fees payable). The scientific approach consists of a theoretical approach to the issue mentioned, supported by applied research, comparative research on the subject of individual enterprise (IE) and limited liability company (LLC), the easiest legal forms of organization for business entrepreneur. The objective of our scientific approach is to give potential entrepreneurs a clear and comprehensive overview of "facilities" offered by the two types of business entities.*

**Keywords:** limited liability company, individual enterprise, microenterprise, annually net income, tax.

**JEL Classification:** M41, H22

### 1. Introduction

The costs and procedures, taxes and fees applied to each form of business organization, limitation of liability, the amount of tax obligations, the method of determination thereof, statements and other documents to be submitted to the tax administration, accounting requirements and conditions, here are some of the items to be

weighed judiciously before seeing what legal organizational form best suits the entrepreneur. Given the objective of our scientific approach, we consider, above all, to present the characteristics of LLE and IE. Thus:

According to the legal dictionary, the limited liability company is a "hybrid company form of partnerships and capital, characterized by limited liability associates only up to the subscribed capital". While the society associates are liable for the obligations of the company only up to the amount of capital allowances, the limited liability company, which has legal personality from the moment of entry in the trade register is responsible for its obligations with whole patrimony. The limited liability company has the features, of a partnership, and a corporation, being more flexible than other types of companies and more appropriate for a single owner or a small number of members.

An individual enterprise is "un economical enterprise, unincorporated, organized by an individual entrepreneur"[1]. If economic activity is organized by an individual with his family, the enterprise is called family business enterprise. Economic activity is the activity "carried out in an organized, ongoing and systematic, combining financial resources, manpower, raw materials, logistics and information resources on the risk of entrepreneurs, in cases and under the conditions provided by law."

Individual enterprise is the undertaking which belongs to the citizen or their family members with common ownership, the right to private property. Individual business assets are formed on the basis of the goods of citizens (family) and other sources not prohibited by legislation. So, by registering

in the trade register the individual enterprise acquires legal personality. Comparative analysis of the "advantages" and "disadvantages" that can be associated with the two forms of business organization has been done on two axes, accounting and taxation, independent but complementary tax regulations refer to the recorded data and information accounting, bookkeeping records of the elements resulting from the application of tax regulations.

## 2. Management of accounting - comparative analysis

The information underlying the calculation of tax liability due to economic entities, whether individual companies or limited liability companies are recorded in documents and entered in the accounts. Based on comparative analysis of legal regulations on the way of organizing and bookkeeping we got the results that we present in table 1.

Table no. 1. Management of accounting - comparative analysis

Element to compare	Limited Liability Company	Individual enterprise / Family
Regulation	Accounting Law no.82 / 1991, updated and O.M.F.P. 1802/2014	Accounting Law no.82 / 1991, updated and O.M.F.P. 170/2015
Management of accounting is made:	- according to the rules of double entry accounting; dual recording and double representation of the patrimony using the accounts of the Chart of Accounts	- according to the simple entry accounting rules, Optionally you can switch to double-entry bookkeeping
Mandatory accounting records	Register - log Register General Ledger Register - inventory	The journal of receipts and payments (single entry) or Register - log * (double entry) inventory register
Financial reporting	Annual financial statements, which in their most extensive structure include: balance sheet, income statement, statement of changes in equity, cash flow statement, explanatory notes	-
Bookkeeping costs	High because of the complexity of the management of accounting in double entry, it is necessary the service of professional accountants;	Low, the services of professional accountants not necessary, given the "simplicity" rules of preparing documents and accounting records;

Source: authors

\* Persons "opts for bookkeeping based double entry accounting rules organize and lead their own accounts under the accounting regulations in force, for economic operators, to specific trial balance without preparing annual financial statements." [2]

As I stated earlier, based on data reflected in accounting and taking account of existing tax regulations, it shall calculate the tax liability of economic entities and subsequently in preparing of tax declarations for each type of obligation.

Although not obliged to prepare financial reporting documents, individual businesses / family will determine the amount of taxes

owed on "annual net income determined in real system based on accounting data" and will draw on the income statement of Romania (code 200) obtained from independent activities, rental and leasing, agricultural, forestry and fishery.

## 3. The dependency relationship between the nature and amount tax liabilities and legal form of business organization - comparative study

Regardless of organizational form, both companies and individuals that carry out income generating activities have an

obligation to lead and organize financial accounting, providing "chronological and systematic registration, processing, publish and maintain information on financial position , financial performance and other information regarding the activity performed both for their domestic needs and in relations with current and potential investors, financial and trade creditors, customers, public institutions and other users. "[3]

Among the users of the accounting information provided is included the state to which economic entities have a number of tax obligations, resulting in taxes, social contributions constitute income to the state budget, local budgets and other budgets and national funds. The legal framework of all these tax obligations and the taxpayers who owed is provided by Law 571/2003 on the Fiscal Code, updated where, for tax purposes, any other laws prevail even in the event of "conflicts "between them. For our study comparative we retained the tax analysis, enterprises' income tax - subject of study is the Limited Liability Company or microenterprise and income tax from independent activities - subject of study in this case is individual enterprise.

Microenterprise is a Romanian legal entity which is not conducting the business in banking, insurance and reinsurance, capital market or gambling and which meets the following conditions at 31 December of the previous fiscal year:

"- Derives income, other than consultancy and management in over 80% of total revenue;

- Achieved revenues of less than the RON equivalent of EUR 65,000;

- Its share capital is held by persons other than the state and local authorities;

- Is not in dissolution with liquidation, registered in the commercial register or the courts, according to the law."[4]

Follows from the above that a limited liability company may be:

- Taxpayer, payer of income tax;

- Taxpayer, payer of revenue tax of microenterprises according to the law. Individual enterprise is, in our case, the taxpayer payer tax on income from independent activities. Income taxes are calculated by applying 16% tax on profits, which in turn "is calculated as the difference between income from any source and the

expenses incurred in order to achieve revenue of a fiscal year (not adequately their registration accounting), minus the non-taxable income and plus deductible expenses ".

*Taxable profit= Income- Expenditure paid to achieve revenue- Non-taxable income+ Non-deductible expenses*

Both categories of taxable income and not deductible expenses are full or limited deductibility expressly provided in in the tax law. Important to note is that taxable income is calculated and highlights quarterly, cumulative from the beginning of the year. So the tax due for the current quarter is determined based on the relationship:[5]

*„Profit tax on taxable profit calculated - cumulatively from the beginning*

*Cumulative taxable profit for the tax until the end of the previous quarter*

*= Tax owed for the current quarter”*

Microenterprise tax revenue is calculated by applying the quota of 3% on taxable base represented by the revenues from any source in terms of the applying legislation. Tax calculation and settlement is done quarterly.

Revenue tax from independent activities is determined by applying the tax rate of 16% on taxable income, taxable period is represented by the fiscal year. Taxable income represents net income determined in annual real system based on accounting data "as the difference between gross income and deductible expenses incurred in order to achieve revenue" except as provided by the Tax Code. Note that gross income is the amounts collected and the equivalent in lei of income in kind of activity and other revenue, while deductible expenses must be included in the expenditure of the financial year in which they were paid. Non-cash expenses by nature which do not imply cash flow, and depreciation expenses are also deductible expenses to the extent that fulfill the condition to be related incomes obtained.

For example we consider the service of an economic entity whose main activity is the transport of goods by road. Revenues, expenses, receipts and payments made by the entity during a financial year are shown in the table below:

Table no. 2. Statement of income, expenses, receipts and payments of a financial year

Element Period	Revenue (lei)		Expenses, excluding depreciation costs (lei)		Receipts income (lei)	Payment s charges (lei)
	Quarterly	Cumulative	Quarterly	Cumulative		
Quarter I	26460,50	26460,50	15645,08	15645,08	-	24766,97 *
Quarter II	46850,04	73310,54	66379,05	82024,13	27349,77	59293,05
Quarter III	65125,63	138436,17	49378,66	131402,79	72781,71	51696,88
Quarter IV	74074,59	212510,76	47406,96	178809,75	66119,28	57004,96
Total					166250,76	192761,8 6

Source: authors

\* Of which payment in the amount of 14,354.85 lei is related to the acquisition in February of a means of transport, whose service life is 60 months depreciation regime used is linear:

Monthly depreciation = 14,354.85 lei / 60 months = 239.25 lei

We specify that earnings include items of revenue not taxable and expenses in the table

above do not include items of non-deductible expenses, tax expenses accurately. Considering the method of calculation specific to each type of tax we did comparative analysis on the amount of taxes due and their influence on economic entity treasury. The results are summarized in Table 3 "Determination of tax due in the current financial year".

Table no. 3. Determination of tax due in the current financial year

The fiscal period	L.L.C Profit tax Quota 16%	L.L.C Microenterprise income tax Quota 3%	I.E Income tax determined real system Quota 16%
Quarter I	1692,00 lei <sup>1</sup>	794,00 lei <sup>2</sup>	No obligation
Quarter II	- 1692,00 lei <sup>3</sup>	1406,00 lei <sup>4</sup>	No obligation
Quarter III	- 835,00 lei <sup>5</sup>	1954,00 lei <sup>6</sup>	No obligation
Quarter IV	5009,00 lei <sup>7</sup>	2222,00 lei <sup>8</sup>	No obligation
Total	<b>5009,00 lei</b>	<b>6376,00 lei</b>	<b>0 lei<sup>9</sup></b>

Source: authors

1) Fiscal result  $_{quarter I} = 26460,50 - (15645,08 + 239,25) = 10576,17$  lei

Tax due quarter I =  $16\% \times 10576,17 = 1692$  lei

2)  $3\% \times 26460,50 = 794,00$  lei

3) Fiscal cumulative result  $_{quarter II} = 73310,54 - (82024,13 + 239,25 \times 4 \text{ months}) = -9670,59$  lei

Calculated tax quarter II: 0 lei ;

Tax registered and paid quarter I : 1692,00 lei

Tax due quarter II: - 1692,00 lei ; tax claim on the state

4)  $3\% \times 46850,04 = 1406,00$  lei

5) Fiscal cumulative result  $_{quarter III} = 138436,17 - (131402,79 + 239,25 \times 7 \text{ months}) = 5358,63$  lei

Calculated tax quarter III:  $16\% \times 5358,63 = 857,00$  lei ;

Tax registered quarter II : - 1692,00 lei

Tax due quarter II: - 835,00 lei ; diminishing of the tax claim on the state

6)  $3\% \times 65125,63 = 1954,00$  lei

7) Fiscal cumulative result  $_{quarter IV} = 212510,76 - (178809,75 + 239,25 \times 10 \text{ months}) = 31308,51$  lei

Calculated tax quarter IV:  $16\% \times 31308,51 = 5009,00$  lei ;

Tax registered quarter III : - 835,00 lei

Tax due quarter IV: 4174,00 lei

8)  $3\% \times 74074,59 = 2222,00$  lei

9) Annual net income =  $166250,76 - 192761,86 + 14354,85 - 239,25 \times 10 \text{ months} = -14548,75$  lei

Tax due: 0 lei

#### 4. Conclusions

Given the results obtained from the applied research and presented above we can say that we managed to emphasize the relationship of dependence between the amount of tax liabilities and legal forms of business. Thus:

1. The limited liability company registered profit at year-end, but in the II quarter had tax loss, loss which will be fully covered until the end of the fourth quarter. The consequences on the amount of tax:

- as a taxpayer the L.L.C in the second quarter is recording a claim on the state at the income tax paid for the first quarter in the third quarter thanks to fiscal profits diminishes the debt that will be fully offset at the end fourth quarter.

- as a taxpayer paying income tax on the microenterprises, the L.L.C has tax due on a quarterly basis, despite the tax loss;

2. The total amount of tax due and paid by L.L.C is 27, 29% higher if it was considered microenterprise.

3. Regarding individual enterprise can be observed that during the financial year has no tax obligation, moreover, the annual net income is negative. The obligation to pay tax for the current year have quarterly maturities, but in the next financial year. In case of obtaining negative annual net income individual enterprise is required to estimate the next financial year the net and make prepayments on a quarterly basis as estimated.

4. All these tax obligations have an impact on the liquidity of the economic entity. Any entrepreneur is concerned every moment to ensure the necessary funds, seeking to answer the question "can the company honor its obligations due date in the near future?"[6]

The liquidity of the entity is the most affected when assuming microenterprise cash outflows to well defined due dates, whose breach "burden" the entity with penalties.

On the opposite side are the individual enterprises whose short-term payment capacity is not affected by the tax obligation, but rather poor management of the clearing relationships with suppliers and customers that generated liquidity shortage.

Given also that the holder of individual enterprise has immediate access to surplus

cash obtained at a time and that member / members of a company have to wait the end of the financial year to benefit from the profit obtained and distributed to dividends, we say that for the entrepreneur that the business represents the only source of income for everyday life, it is recommended to orient to the individual enterprise.

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## General Aspects of the Patrimonial Rights in the New Civil Code

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### Abstract

*Although governed in terminis, the patrimonial rights are the most important rights of the substantive legal system of any country. Therefore, this study highlights their importance and their corresponding classification, taking into account the incident legal norms. However, as it can be easily noticed, I have tried to illustrate only the most significant issues related to real rights, i.e. the rights of claim. These two rights are the most commonly used patrimonial rights, as they have raised people’s interest even since Roman times.*

**Keywords:** *patrimonial right, real right, right of claim, right to property, dismemberment*

**Cod J.E.L.:** K4

### 1. Introduction

Depending on *the nature of their contents*, civil rights and obligations are classified in patrimonial and non-patrimonial civil rights and obligations.

*Patrimonial rights* are those subjective rights that have an economic, monetized content.

*The non-patrimonial right*, also called patrimonial personal right, is that subjective civil right whose content cannot be monetized (e.g. rights related to the existence and to the physical and moral integrity of the person, such as the right to life, health and bodily integrity, the right to freedom, the right to the secret of private life, the right to honor and reputation; rights related to the individual’s identity elements etc.).

Patrimonial rights are divided into various categories: *real rights, personal rights or rights of claim, intellectual property rights*. Within the category of patrimonial rights, we could include even *the legal actions*. The

distinction made between real rights and personal rights (rights of claim), which has its origins in the Roman law, is considered by the old doctrine as a supreme division (opinion currently nuanced by modern authors). Therefore, in the contents of our study, we will not evoke any aspect of intellectual property rights [1].

In terms of *subjects*, real rights imply the existence of a *determined active subject* and of an *undetermined passive subject*, consisting of everyone else. On the other hand, the rights of claim involve *determined subjects* (both the creditor and the debtor), the debtor having the obligation correlative to the creditor’s right to ask, give, do or not do what the former could do without the respective obligation. However, compared to personal rights, real rights have two specificities: they imply *the right to pursue* and *the right of preference*.

*The right to pursue*, presented by a real right, allows the holder to pursue the assets that belong to him/her or that are encumbered with a real right in his/her favor, in whatever hands they may be. Thus, the owner of an immovable asset can reclaim it from any bailee; the usufructuary may claim his/her assets in order to use them, before any owner of the assets. On the contrary, the right of claim carries in itself the right to pursue. It follows that the creditor benefits from a general guarantee over the debtor’s patrimony, not having a special right to pursue certain specific assets from his/her patrimony. An unsecured creditor can pursue only the assets in his/her debtor's hands, losing this possibility in case of alienation by a third party. Moreover, the right to pursue also affects the performance of the obligations regarding the use of the assets. For example, if A promises B that he/she will borrow him/her the car for a trip, if this car is alienated, B cannot ask the buyer C to execute the obligation, A being the only obliged party.



*The right of preference* consists in the holder's possibility to exercise prevalently his/her right on the same assets, in relation to the holders of other rights. For example, if a right of claim is accompanied and secured by a mortgage right, the holder of the mortgage right (the mortgagee) has the opportunity to prevalently exercise his/her right of claim, from the mortgaged property price, in relation to the other creditors of the same debtor.

According to traditional views, real rights are limited, being expressly regulated by law, while the rights of claim are virtually unlimited because they arise from any valid legal document, from lawful or unlawful legal acts (i.e. from human actions committed without the intent to produce legal effects, effects that are produced, however, under the law: overpayments, unjust enrichment, the destruction of assets that attracts torts, etc.).

## 2. Real rights. *Definition and classification*

**Real rights (*jus in re*)** are those subjective patrimonial rights under which the holder may exercise the attributes conferred by law, directly, on the assets to which they relate, without needing other people's concurrence.

It should be emphasized that real right represents a relationship between people on one article and not a relationship between a person and an article. The real right requires a legal relationship regarding an article, between the active and the passive subject, the latter including all the indeterminate persons who have the negative obligation of not prejudicing the holder's exercise of the real right. Within this relation, the contact between the person and the article is immediate, under state warranty and control: the article is subdued or subject to the person, it is obliged to comply. However, this is only apparent, as an article cannot be the passive subject of a right.

The doctrinarian **classification** of real rights consists of *main real rights* and *accessory real rights* (privileges, real and personal guarantees).

*The main real rights* are those rights that have an existence independent of the other rights; therefore, they do not depend on other rights such as, the property, the use, the usufruct, etc.

*The accessory real rights* (guarantees, privileges) are those rights that depend on the existence of other rights; for example, the right to mortgage. They are *accessories to the rights of claim*.

If the main real rights regard the materiality itself of the article, being at the service of the right holder, the accessory real rights regard the monetary value of the article, this value being set aside in the interests of the right holder.

In their turn, *the main real rights* are divided into the right to property (public or private) and real rights deriving from or corresponding to the right to property.

From didactic reasons, we can only recall that the right to property is divided into the **right to public property**, which belongs only to the state or to administrative-territorial units, and **the right to private property**, which belongs to natural and legal persons of a particular type, and the right to private property of the state, administrative - territorial units (county, city, town, village), and of other legal persons established by state and local authorities, such as autonomous administrations or national companies. The real rights derived from the property right may be, in turn, derived from the right to private property or corresponding to the right to public property.

The real rights corresponding to the right to public property, under the regulations in force, are:

a) **the right of administration** (art. 867-870, the New Civil Code);

b) **concession rights** (art. 871-873, the New Civil Code);

c) **the right to use free of charge** (art. 874-875, the New Civil Code).

These real rights are established through an administrative action, within certain legal power relationships, and they represent ways of exercising the right to public property. Therefore, they do not dismantle public property, not being opposable to the owner through administrative appeal; however, through civil appeal, they are opposable *erga omnes*. As we have already mentioned, in practice, they can be also assimilated to the procedures for the exercise of public property.

In contrast, the real rights derived from the right to private property (also called dismemberments of the property right) are

opposable *erga omnes*, including to the owner. The dismemberments lack some of the property attributes, their holder detaining the possession, use, or material or (partially) legal disposal, while the owner will always have the legal disposal of the asset. The dismemberments of the right to property are:

a) **the right of superficies** (art. 693-702, the New Civil Code);

b) **the right of usufruct** (art. 703-748, the New Civil Code);

c) **the right to use and the habitation right** (art. 749-754, the New Civil Code);

d) **the right to servitude** (art. 755- 772, the New Civil Code).

Returning to *the accessory real rights* (of guarantee or privilege), as already mentioned, they have no independent existence, as they always depend on the existence of other rights. These accessory real rights are referred to and regulated by the New Civil Code as guarantees or privileges and they can also be divided into: **real guarantees** (mortgage, pledge, lien), **privileges** and **personal guarantees** (surety, autonomous guarantees).[2]

a) **The right of mortgage** is an accessory real right on movable or immovable, tangible or intangible, determined or determinable assets or body of assets, which grants its holder, called mortgagee, the opportunity to pursue it in anyone's hand and to prevalently be paid its price. Being established on certain assets, this right of mortgage represents indirectly a real guarantee to its holder (the mortgagee);

b) **The privileges** are accessory real rights belonging to creditors who, by virtue of their claims, have the opportunity to be paid, in priority, from the value of the debtor's determined movable and immovable assets, even before subsequent pledgees or mortgagees (e.g. trial expenses incurred in the common interest of creditors, burial expenses in relation to the condition and status of the deceased, the expenses for the conservation of the article, the rest of the seller's price on the sold immovable asset, etc.).

c) **The suretyship** is a contract whereby one party (fidejussor) binds to the other party, which holds, in another relation, the status of creditor, to perform, free of charge or in return for payment, the debtor's obligation if the latter does not perform it.

The surety is not presumed, it must be expressly assumed under a written document, authentic or under private signature, under the penalty of nullity, wherefore it is considered a personal guarantee.

d) **The autonomous guarantees** are commitments whereby the issuer, as guarantor, undertakes, at the request of a person, to support the latter in front of a creditor, the execution of an obligation to do or not do something. This type of guarantees can also be assimilated to personal guarantees.

e) **The retention right** is that accessory real right (or imperfect real guarantee) that gives the opportunity to the creditor, who is, at the same time, debtor of the obligation to return or deliver the article of another party, to retain that article and to refuse to return it until his debtor, creditor of the property, executes the obligation arising in connection with the expenses incurred in its preservation, maintenance or improvement. Therefore, the lien falls into the category of imperfect real guarantees. It is considered a real but imperfect guarantee because it does not confer the prerogative of the right to pursue or of the right of preference, but the prerogative of the right to participate, in the event of the foreclosure of the asset upon which it is exercised, to the distribution of the asset's price, as provided by law [art. 2498, par. (2), the New Civil Code].

f) **The lien** is an accessory real right constituted in favor of a creditor on movable tangible assets or negotiable securities issued in a materialized form, belonging to the debtor or to a third party, in order to ensure the execution of the debtor's obligation. It can imply the debtor's dispossession of the pledged asset or, in the case of registered or bearer securities, it can entail their remission; regarding security notes, it may imply their endorsement, for warranty purposes. The lien also implies the attributes of pursuance and preference and it recognizes to its same holder a real guarantee over the assets that fall under its object.

### 3. The rights of claim. Definition

*The rights of claim (or personal rights) are defined as those subjective patrimonial rights under which the active subject, called creditor, may require the passive subject,*

called debtor, to give, do or not do something.

The rights of claim are also called *personal rights*, as opposed to the real ones, because they are opposable only to certain persons (debtors).

According to the legal doctrine, these rights are made up of two elements: an *interpersonal relationship* between the creditor and the debtor; an *economic element*, which consists of the creditor's right on the debtor's patrimony; this right is called *general or shared guarantee* [3]

Regarding the legal relationships engendered by the rights of claim, they are called relationships and obligations, as an obligation (to give, do, or not do) will always correspond to the right of claim. Therefore, the right of claim can appear as a legal power that allows the creditor to ask the debtor to fulfill a certain performance. In other words, the unsecured creditor has the right to a *general or shared guarantee* (general pledge) on the debtor's patrimony, i.e. the right to pursue and sell assets through forced execution, at a public auction, and to meet his/her claim from the price obtained. From this perspective, the right of claim appears as a right to a share or fraction of the patrimony. If the price resulting from the enforcement procedure of the debtor's patrimony does not compensate all the unsecured creditors, they will be paid proportionally to the nominal amount of the claim held.

According to the New Civil Code, the right of claim may be transferred to another person, in compliance with the requirements imposed by law.

#### 4. Conclusions

Although, in the New Civil Code, the patrimonial rights are not governed *in terminis*, their importance is fundamental because they are subject to the majority of legal relationships. This paper reveals only a small part of the importance of the most significant patrimonial rights, i.e. the real rights and the right of claim.

Therefore, the real rights appeared as absolute rights, which will always imply a determined active subject and the passive subject will consist of all the other persons. Since the passive subject is not determined, the right real is a right opposable to all

persons- i.e. *erga omnes*. Thus, the obligation of the undetermined passive subject resides in not doing anything likely to impede the exercise by the active subject of his/her right, which entails a general negative obligation.[4]

In terms of their legal effects, real rights are accompanied by the right to pursue and by the right of preference, belonging only to the holder.

In contrast with the real right, the right of claim is a relative right because it involves determining, from the very outset, both the active subject (the creditor) and the passive subject (the debtor) – the only obliged party but also the only party whom this right is opposable. Regarding the obligation enforceable against the debtor, it may be both positive (to do) and negative (not do something).

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## The Assets under the New Civil Code

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### Abstract

*In general, the assets play an important role both in the sphere of economics, because they always carry an economic value, but also in the sphere of legal sciences, because one article, in order to be regarded as an asset, must be appropriable. This appropriation (i.e. an article to be suitable for a particular purpose) mandatorily implies the intervention of human will. Therefore, in this study, we are going to consider all the incident generalities on assets, under the new Civil Code.*

**Keywords:** *assets, real right, tangible, intangible, movable, immovable.*

**Cod J.E.L.:** K4

### 1. Introduction

Since ancient times, the relationship between persons and assets has been a natural one because the human being was the one who gave utility or economic sense to articles. This is why the New Civil Code establishes a special normative importance of assets, in Book III, entitled, *On assets* (art.535-550).[1]

Because articles are useful to the human being, bringing him/her benefits, they are referred to as *assets*. If articles are generally considered assets, however, we should also make clear that not all articles are assets, because not all articles can be *appropriated* (i.e. to make an article suitable for a particular purpose); there are articles which, by their nature, cannot be *appropriated* (because they are common assets- *res communes*) such as light, air, sea, snow, etc. These assets can be used by persons in common, i.e. they have a common utility but, legally, they cannot be regarded as assets.

The concept of assets is established by the provisions of article 535 of the New Civil

Code, in the sense that "*Assets are those tangible or intangible articles, which are subject to a patrimonial right.*"

In the economic sense, “assets” means anything that is useful. **In the legal sense**, the term has two meanings. In a narrow sense, i.e. **stricto sensu**: assets are those tangible or intangible articles that can be the subject to patrimonial rights and obligations; in this sense, it is preferable to use the term “article”. More broadly, i.e. **lato sensu**: *not only does the term “assets” refer to tangible or intangible articles as objects of patrimonial rights and obligations, but they also refer to those objects of the patrimonial rights and actions related to assets in a restricted sense.*

The asset detaches itself from the article if it meets two conditions: *it is useful for the human being and it is appropriable under the form of patrimonial rights*. Therefore, the asset represents a useful article or an economic value that can become object of patrimonial rights. However, the asset should not be confused with the patrimonial right, because it is only an object of the latter.

In relation to the ideas presented above, and according to the notion dealt with in the New Civil Code, we can **define** the asset as *that economic value which is useful to the human being and which may be appropriated under the form of patrimonial rights.*

### 2. Criteria for the classification of assets

The New Civil Code applies different criteria to assets, distinguishing primarily between **tangible** and **intangible** assets. These first criteria for the classification of assets are determined by article 535 of the New Civil Code and both types of assets may be subject to a patrimonial right.

Thus, regarding **tangible assets**, we should take into consideration the physical, material reality, i.e. they are immovable and movable in their nature.

On the other hand, regarding *intangible assets*, the distinction is artificial; they are *immovable or movable, according to the object to which they apply* (generally, we can exemplify the rights on the assets and the rights of claim, and, in particular, the usufruct of immovable or movable articles, easements, actions that tend to claim an immovable or movable asset, etc.). The category of intangible assets also includes the movable assets, under the law (parts of interest, rents, etc.).

A) **Tangible assets** (*res corporales*). Tangible assets as those assets *which have a material existence, perceived by human senses, i.e. which can be seen, touched and possessed*. From a legal perspective, the notion of “tangible assets” can be perceived regardless of their state, i.e. solid, gaseous or liquid.

Consequently, tangible assets may be movable or immovable. *The nature of the immovable asset cannot be disputed* – e.g. the land. An immovable asset may be a portion of land or a permanent article embedded in the ground, such as a building or construction, a platform and other equipment for the exploitation of the submarine resources located on the continental shelf, springs and streams - they are immovable by their nature. The plantations attached by roots (ready to be cut down), rooted trees (about to be cut down), preserve, in principle, their immovable nature but only as long as the separation has not occurred (article 537, the New Civil Code). In addition, immovable assets are those materials provisionally separated from a building, to be employed again, as long as they are kept in the same form, and the integral parts of an immovable asset that are temporarily detached from it, if intended for be reintegrated. Nevertheless, even at this moment, in some respects, the code treats them as *mobile by anticipation* (article 540, the New Civil Code), given their future separation. Indeed, the sale of crops separated from their roots, the trees that are cut down, the materials derived from demolition - all designed as a sale of future goods - will obey the rules for the sale of movable assets, which are simpler and easier to apply than the rules on the sale of immovable assets.

In contrast, the movable asset, by its nature, is defined as *any asset that the law*

*does not consider immovable* [article 539, paragraph (1), the New Civil Code]. In a concise definition, we can illustrate the notion of movable assets as those assets characterized by their own mobility or by a borrowed mobility. This category of assets could include a different area, namely land vehicles, animals, vessels, aircraft, clothing, food, diamonds, gold bars, etc.

The category of tangible assets includes the *immovable assets by the destination* (the materials used instead of the old ones, in a building). These movable assets used instead of the old ones will become immovable at the time when they acquire this destination (e.g. tiles, sinks, pipes, etc.).

B) **Intangible assets** (*res incorporales*). Intangible assets are those assets that do not have a material existence (body, substance), lacking the tangible matter. These assets are not imaginary, as they will always represent an economic value in a person’s assets. In essence, only the *rights* can be *intangible assets* because they are intangible. However, most rights are related to tangible assets; in this case, we might say that they are tangible assets. The provisions of article 542 of the New Civil Code state, quite abstractly, in paragraph (1) that “(...) *the real rights on immovable assets are also subject to the rules relating to these immovable assets*” and, further, paragraph (2) states that “*the other patrimonial rights are subject, within the limits prescribed by law, to the rules related to movable assets*”. The doctrine also illustrates that there are rights that do not concern tangible articles. These are called *absolutely intangible assets*.<sup>[2]</sup>

In these circumstances, we believe it useful to distinguish between *the rights on tangible assets (a)* and *absolutely intangible assets (b)*.

a) **The rights on tangible assets**. Depending on the object to which they apply, they may be movable or immovable. It is true that the provisions of the New Civil Code do not directly use this expression but article 542 is called “*Rules applicable to the rights on assets*” These rules are important to *real rights, rights of claim and legal actions*.

• **The real right**. It can be viewed separately from the asset to which it applies in order to be considered itself an asset, only regarding the dismemberments of the

property right (e.g., the right to collect, during one’s lifespan, the revenue resulted from a usufruct is considered an asset). As far as it concerns the property right, this legal exercise is not valid because the property right is a main real right and it absorbs all the utilities of the article and merges with it. The property right is the only real right that identifies itself with its object. Therefore, a person who has a right to habitation on a building will not say “*my building*” but “*the building on which I have a right to habitation*”. Consequently, in this way, we can distinguish between the intangible right and the building, the latter being the material subject of the former.

If the real right is applied only to an immovable asset, it will be an immovable asset (by the object to which it applies), and if the real right is applied on a movable asset, similarly, it will be a movable asset.

• **The right to claim.** If the creditor requires his/her debtor a certain asset, this right represents an asset. If its object is immovable, the right of claim will have an immovable nature (these are rare cases because the buyer becomes the owner immediately). *Per a contrario*, the claims will have a movable nature if their object is movable. In this category, we include the claims that tend to achieve the transfer of the property of a movable asset in nature.

*The scope of application* of the rights of claim is almost infinite because articles are convertible into cash. From a didactical perspective, we could give some examples, namely: the claims of service (they may be obligations to do or not do something, with a movable nature because, in case of non-execution, they may turn into money obligations); the inhabitant’s right to lease (despite appearances, it has a movable nature because it establishes a number of obligations on those who rent); the rest of the price for the sale of an immovable asset (although the object of sale was an immovable asset, the remaining value is a movable claim); etc.

• **The legal action.** In the context of our topic, the legal action may be regarded as legal or procedural means that a person has on hand in order to defend his/her rights in court.

Actions are classified according to the rights that aim to defend but also to capitalize them. In this regard, the legal action through

which a person requires the court, against others, the observance of his/her right to an asset, is itself an asset (e.g. the action for recovery)[3]. To some extent, this action could replace the asset from the owner’s patrimony, if the court recognizes definitively the right to property over that asset. It will be immovable if the claimed asset is immovable; it will be movable if the claimed asset is movable. The same discussion is available if the action’s object is represented by the return of a sum of money[4]. This will always have a movable nature.

However, in all cases and regardless of the subject to which it relates (movable or immovable), a legal action must be definitively admitted by the courts because, with it, the person’s right will be recognized and valued. This recognition is a recovery of the right, but it cannot occur if the legal action is dismissed by the court.

b) “**Absolutely**” *intangible assets (purely intangible assets)*. A part of the internal doctrine highlights the existence of these assets[5]. The “absolutely” intangible assets are those assets which are totally detached from any material support, with no material existence of the object to which they refer. In these circumstances, we cannot discuss about a movable or immovable object. However, as we will see, they will always be mobile because they represent the expression of values or claims (bonds, shares, parties of interest, rents, etc.).

These assets are *movable assets as determined by law*. For example, regarding the company contract, article 1.894 of the New Civil Code governs the formation of the registered capital. Thus, the subscribed registered capital is divided into equal parts, called *parts of interest*, which are proportionally distributed to the associates, according to their contributions, unless otherwise provided by law or by contract. These are the rights of private nature, i.e. the associates’ claims against the legal person. For example, the right to a fraction of the regular benefits or upon dissolution, the right to a fraction of the shareable asset; although there are immovable assets within the asset, the parties of interest will not be considered immovable but movable for the purpose of their transmission, under the limits and

conditions provided by law (article 1901, the New Civil Code).

Another example of absolutely intangible movable assets may be represented by the right to a certain amount of money, payable monthly or yearly, either until the death of the creditor (annuity) or indefinitely (perpetual annuity). For example, in the case of an annuity, an aged owner, instead of selling his/her asset for a price paid of a sudden, he alienates it for an annuity, paid monthly, yearly or indeterminately.

### 3. The main division of assets: movable and immovable assets

This is the fundamental division known both by the old civil regulations and by the New Civil Code.

According to article 536 of the New Civil Code, *assets are movable or immovable*; this can lead us to the conclusion that between them there is no intermediate category. In these circumstances, we can distinguish primarily between immovable assets and movable assets.

According to article 537 of the New Civil Code, immovable assets are:

- land;
- springs and streams;
- plantations with roots attached;
- constructions and any works fixed on land, with a permanent nature;
- platforms and other facilities used in order to exploit the submarine resources located on the continental shelf and everything that, naturally or artificially, is embedded with this permanent nature.

Regarding these assets, article 538 of the New Civil Code determines certain situations where certain assets remain or become immovable. Thus, immovable assets remain:

- the materials provisionally separated from an immovable asset, which are going to be employed again, as long as they are kept under the same shape;
- the integral parts of an immovable asset, which are temporarily detached from this asset, if intended to be reintegrated.

Immovable assets *become* those materials intended to be used instead of the old ones, once having acquired this destination.

Under article 539 of the New Civil Code, *movable assets* are:

- those assets which the law does not consider immovable;
- the electromagnetic waves or those assimilated to them, produced under the law;
- any energy produced, under the law, by any person and put into his/her service, regardless of the movable or immovable nature of its source.

Equally, according to article 540 of the New Civil Code, *movables assets by anticipation are*:

- the riches (of every kind) of soil and subsoil;
- the fruit that are still unpicked;

In addition, movable assets by anticipation *become* those plantations and buildings incorporated in the soil, when, by the will of the parties, are viewed in their individual nature, for the purpose of their detachment.

### 4. The secondary division of assets, under the New Civil Code

If, mainly, the assets are movable or immovable, the following provisions of the New Civil Code regulate some special assets (this could be considered as a secondary distinction or classification). In these circumstances, we can distinguish between *fungible and non-fungible assets* (article 543, the New Civil Code); *consumable and non-consumable assets* (article 544, the New Civil Code); divisible and indivisible assets (article 545, the New Civil Code); *primary and secondary (“accessory”) assets* (article 546, the New Civil Code).

#### A) *Fungible and non-fungible assets. Definition.*

*Fungible assets* are those articles that can be replaced by others in the performance of an obligation. This type of assets can replace others in the performance of an obligation (food, money, cigarettes, etc.).

*Non-fungible assets* are things that cannot be replaced with each other in order to free the debtor. In other words, non-fungible assets are those assets viewed individually and which cannot be replaced with each other (a collection painting, a racehorse, an old gold coin etc.). However, paragraph (3) of article 543 of the New Civil Code states that "Through a legal act, a fungible asset, by its nature, can be considered as non-fungible".

Considering these definitions, we notice that these assets have a tangible physical reality. Therefore, on a daily basis, the human being does not refer to the individual asset but to the genre to which it belongs. Assets that are determined by weighing, measuring, counting are called *res genera* (10 kg. of rice, 50 liters of wine, etc.). *Res genera* are fungible among themselves, i.e. they are *interchangeable* (i.e., shares and bonds, real estate value, etc.)

Considering the other type of assets, we note that there are certain articles, which, although they are part of the same genre, differ by their individual characteristic. In other words, each asset can be unique because, from the perspective of its identity, it represents a unique article. Unique articles or assets are opposed to the above-mentioned *res genera* articles or assets. The articles that are unique by individual features cannot be interchangeable (fungible) with any other category of assets. This fungibility lacks constantly in the case of immovable assets, for example, because, even if they were be alike, they could not occupy the same place in space (for example, two buildings or two lands). As far as movable assets are concerned, when there are sufficient features (so as the human senses cannot be deceived), their interchangeability (fungibility) cannot be incidental (e.g. command costumes, animals, etc.).

However, as already mentioned, the legislator considered it useful for the parties to a legal act to establish the fungible or the non-fungible nature of an asset.

If we refer to the interest of this classification for judicial practices, we estimate, first, that this results from the institution of compensation (article 1.617, the New Civil Code), where we can admit the existence of fungibility as an object between the obligations subject to compensation.

Furthermore, this practical interest can be revealed through sale. This operation can have different effects depending on how it becomes incident on fungible or non-fungible assets. When selling a unique, non-fungible asset, the seller must deliver the buyer the sold article without being able to change it with another one, equivalent in value and quantity (e.g. a collection painting). Contrary to this situation, the seller of a fungible asset can make this substitution because the

obligation does not concern a determined article. In addition, the buyer of a non-fungible asset becomes immediately the owner; this cannot happen with the purchase of *res genera* articles as long as these articles were not individualized. Until their individualization, the seller remains their owner, but, at the same time, he/she also bears the risk of their loss only in the event of force majeure.

Finally, the practical importance of this distinction also results from the institution of the *action for recovery*. If the fungible assets were mixed with other fungible assets of the same type, quantity and quality, and which belong to the debtor, the execution would be possible in kind or directly on them. If they are no longer in the debtor's possession, he/she will be forced to replace them with other fungible assets for the creditor to obtain redress in nature. If there are no such fungible assets, the debtor will be required to pay the cash equivalent thereof, and the object of the action for the recovery of the asset turns into recognizing a right of claim to the creditor.

#### ***B) Consumable assets and non-consumable assets. Definition.***

*Consumable assets* are those assets that cannot be used for their ordinary purpose without consuming their substance, or without being alienated from their first use. Non-consumable assets are those assets that can be employed continuously without thereby consuming their substance or alienating them.

According to paragraph (3) of article 544 of the New Civil Code, the parties may agree for an asset, which is consumable by its nature, to become non-consumable if, by a legal act, its use is changed.

This distinction, which we implicitly find in article 544 of the New Civil Code, has its explanation in the physical reality of assets. Indeed, there are assets that are consumed, destroyed at their first use (e.g., food, coal, gas) and others that, on the contrary, can withstand a long and repeated use (e.g., clothes, TVs, cars, etc. ).

Besides the material consumption of assets, the law also takes into consideration, for currency, the legal consumption, i.e. alienation. Currency cannot be used for a payment otherwise than alienating it (spending it).



This distinction also raises a practical special interest. First, we can take as an example the case where a person has the right to use temporarily an article, with the obligation to return it (loan, usufruct, etc.). The assets that are non-consumable at their first use must be returned at the end of their loan or usufruct. This is not the same with consumable assets. In this case, the refund may be made by equivalent; therefore, it will be enough to return the assets similar in quality, quantity and value. In fact, as far as it concerns consumable assets, the loan and the usufruct actually recognize a property right because hereby it is impossible to use such assets without property prerogatives (e.g., the right to destroy).

**C) Divisible and indivisible assets. Definition.**

*Divisible assets* are those assets that can be divided without changing their destination.

*Indivisible assets* are assets that cannot be divided without changing their destination.

However, paragraph (3) of article 545 of the New Civil Code establishes that, by a legal act, an asset, which is divisible by its nature, can be considered indivisible.

The criterion of this classification is the extent to which the assets can be divided into fragments without thereby changing their economic destination. For example, a parcel of land is, basically, a divisible asset; the same is a ton of wheat or a piece of cloth. Money is treated as divisible assets.

Nevertheless, for example, there are assets that cannot be divided without changing their previous economic destination (a coat, a machine, livestock, etc.).

The importance of this classification is manifested especially in the matter of partition.

**D) Primary assets and secondary (“accessory”) assets. Definition.**

Primary assets are those assets that have an independent existence and can be used independently.

Secondary assets are those assets whose existence is linked to a primary asset and which are used in the employment of the primary asset.

The provisions of article 546 of the New Civil Code evoke this kind of assets but also some legal situations. Thus, only the owner of both assets can determine the common

destination of the primary asset and of the secondary asset. However, the termination of the status of secondary asset cannot be invoked against a third party who had previously acquired rights related to the primary asset. If a secondary asset is temporarily separated from the primary asset, the former is not removed this status.

There are situations when two assets, which are distinct in material terms, may complement each other, to some extent. In this case, the one who complements the other is seen as an “accessory”, as a secondary asset, and the other is considered as a primary asset. Such examples are the frame for a painting, the keys for a lock, the bridle for a horse, the spare wheel for a car, etc. The secondary asset is not always indispensable to the primary asset but it brings it an additional utility. There may be situations where it is difficult to determine which is the primary asset and which is the secondary asset. In this case, we need to consider a functional criterion: the secondary asset is in service of the primary asset and not vice versa.

The ratio between the primary asset and the secondary asset results, in many texts of the New Civil Code, from the expression *accessorium sequitur principale* (the secondary asset follows the primary asset’s fate). This expression has two consequences:

- if two complementary assets, belonging to two different owners, reunite materially, and the primary owner also acquires the property of the secondary asset; this mode of acquiring property is called “accession”; through it, the secondary asset is transmitted the legal condition of the primary asset;
- if in a contract or in a will it is presumed that the primary asset was disposed of, then, except for a clause to the contrary, it is presumed that the secondary asset was also disposed of.

**5. Conclusions**

This study reveals that the New Civil Code does not modify the regulation of assets, compared to the old civil regulations. Moreover, it should be noted that, firstly, the new civil rules come with a concise definition of the notion of assets (article 535) and, secondly, they make a clear distinction

between the asset, on the one hand, and the right on it, on the other hand.

However, we found, with great ease, that the New Civil Code preserved the traditional division (*summa divisio*) of movable and immovable assets; however, along with this main classification, other useful classifications should be noted, such as fungible and non-fungible assets; consumable and non-consumable assets; divisible and indivisible assets; primary and secondary (“accessory”) assets; fruitful (profitable, *frugifer*) and non-fruitful assets.

It is also useful to note the issue of the regime regarding the rights related to assets. In this respect, the immovable assets also include the real rights on immovable assets, while all the other patrimonial rights are considered mobile, complying with their legal regime.

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## Theoretical Analysis of The Development of Fiscal Relations Management Through the Viewpoint of Economic Theories

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### Abstract

*The purpose of this paper is to understand the evolution of the state and its revenue by fiscal and economic theories. The evolution of fiscal relation has its beginnings in ancient times. The first fiscal theories were based on the idea of non-involvement of the state in the economy. Since the coming into being, the state and state revenues have suffered a considerable evolution. Natural obligations and duties of different types have existed from ancient times, but, along with the development of merchandise-money relations, they have given way to cash taxes. Taxes and fees are one of the oldest and most important sources of revenue. With the evolution of man, the community emerged and the need to develop these resources. Taxes, fees, contributions are revenues of consolidated state budget used for public expenditure, their understanding and comprehension depends on tax administration.*

**Keywords:** fiscal relations, tax, economic theory.

**J.E.L. Classification:** H0 ,H3.

### 1. Introduction

Understanding the essence of tax administration depends on understanding the essence of tax (lat. Impositum after fr. Impôt). According to tax financial and economic dictionary is defined as compulsory payment, established by law, that citizens, businesses etc. give out of their

income to the state budget, according to the rules of taxation; contribution.[1] Tax payment shall be made in the amount and term specifically established by law in force. The essence of tax involves the collection of taxes by the state, for the benefit of society, of a part of gross domestic product in the form of mandatory fee.

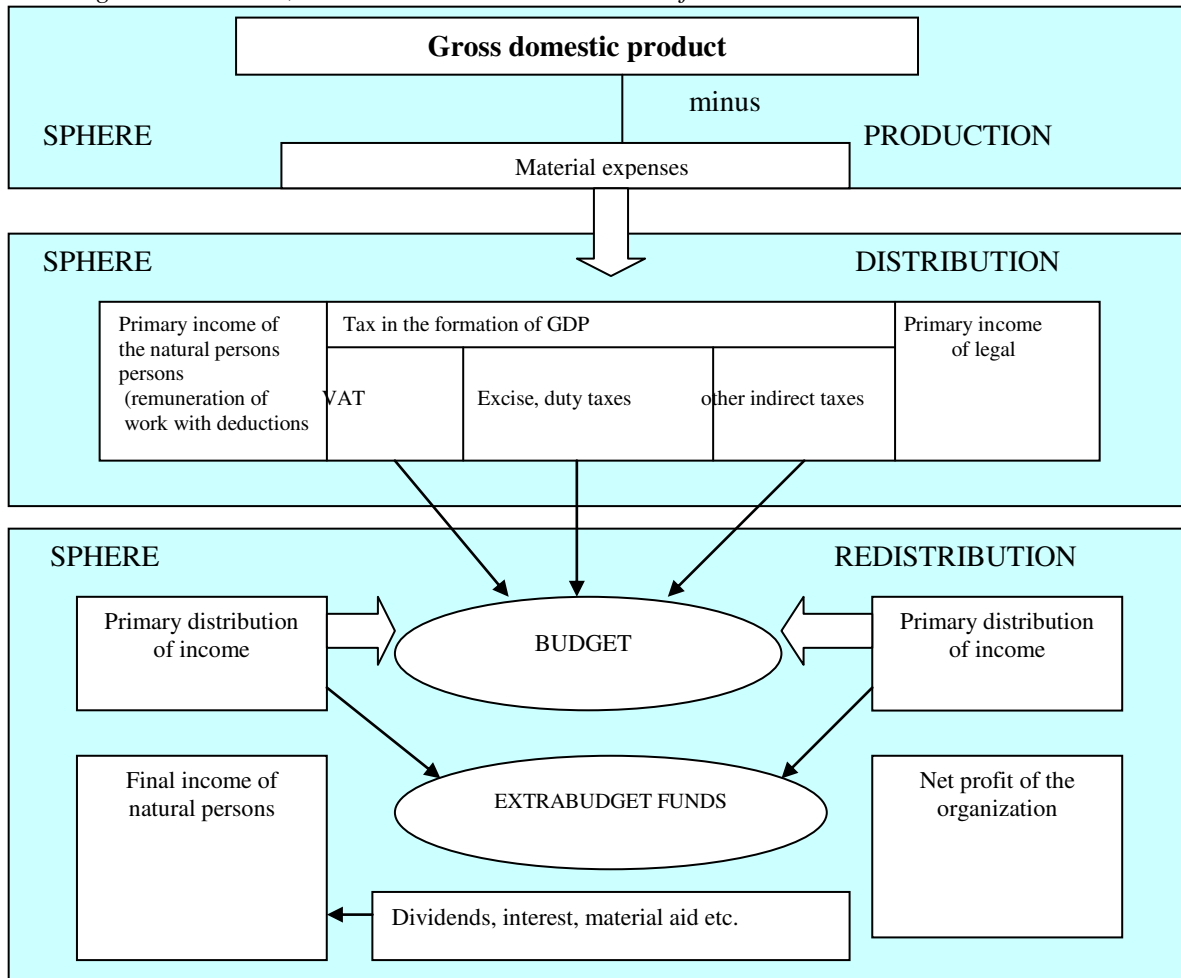
Therefore, the main characteristics of tax are:

- Coerciveness - payment is not voluntary, but binding on all persons who receive income or have goods of the kind subject to taxation under the laws in force.
- Individual non reimbursement - tax levies to public funds of financial resources are definitive and non-refundable.
- Alienation of funds belonging to organizations and individuals with ownership rights, economic arrangement or operational management.
- Guidance for the financial support of the activity of the state.

Such a perception of the essence of tax determines the fiscal administration of taxes by exclusively imperative methods (dispositions of the state).

Tax systems models are changing depending on the economic policy of the state. Next we will examine the most important features of scientific development of taxes as a fundamental object of the management of fiscal relations.

Image 1: Formation, distribution and redistribution of taxes in Romania



Source: Drawn by author

The philosophical sense of the term tax, according to the author, lies in the fact that the tax intermediates the collectivization process of part of the individual income (wealth) needed for the development of society. The tax itself embodies the need to join efforts (property, estate) of the individuals for the carrying out of work and expenses necessary for the society.

The tax is levied to cover social needs, which are situated on a separate position from the individual needs of the specific taxpayer.

At all stages of existence, human society was forced to join forces to oppose the forces of nature, external factors, for common urbanization, for the maintenance of those who are unfit for work and for ensuring many other necessary public needs.

Hence the social meaning of the tax, which consists in deriving individual, family and group needs at a higher level - socialization of needs. The need to strengthen

the efforts of producing important social needs explains the initial cause of the existence of tax as necessary and useful social phenomenon.[2]

From the understanding of the philosophical sense of the tax as a process of vital insurance of the society derived the economic essence of taxation.

The economic essence of the tax is determined by the entire system of trade relations (production, distribution, exchange and consumption). Therefore, the tax must exist in order to stimulate, forecasting the direction of production relations and not hinder their development.

The evolution of fiscal relations has its beginnings in ancient times, they were formed and determined by the types of connections such as goodwill, their payment would often bear a sacral character of religious obligation (offerings, gifts); master-subject relationships (family or with power right - tribute, contribution, etc.).

The establishment of scientific concepts about taxes as the object of administrative decisions is reflected in tax theory, evolutionary development occurred simultaneously with the development of various trends of economic rationality, reflecting the changes in the relations of production and the level of state participation in the reproduction process.

## 2. Literature review

The first fiscal theories were called atomistic and were based on the idea of non-involvement of the state in the economy.

Initially, the definition of tax and its foundation was presented by the exchange theory, then the theory of satisfaction, the theory of the insurance premium, the tax theory - a sacrifice according to which the individual, paying taxes, or purchasing some goods from the state (exchange theory), or receiving satisfaction (satisfaction theory) from goods of civilization, or ensuring himself against the risks that arise from a disposition (insurance theory) offers some of the goods, so the taxpayer does not sacrifice power just some of his belongings, but creates certain benefits (theory of sacrifice). Underlying these theories is the perception about the contractual origin of the state.

In the early stages of development "tax" is distinguished as equivalent movement of funds from the individual to the state, which implies a specific purpose, namely – the covering of specific expenses of the state declared for the society.

Equivalence in fiscal relations has been recognized in all atomistic theories and theories of tax treaties. The denial of equivalence by the classical school was caused, according to the author, by the perception of "productive labour" by the classicists.

Material production and its product, which takes the form of goods, and not intellectual property, information, services, know-how were recognized by them as production costs. Therefore, the tax, which did not fit the notions of equivalence, was excluded. In the examined period, the tax implied the individual non-equivalent collection of the financial means or according to the right of the most influential, or according to the approved judicial law,

having as a purpose the creation of the financial fund used for the realization of the functions of the state. The classical school did not deny the exchange in the fiscal relations.

Since the coming into being, the state and state revenues have suffered a considerable evolution. Natural obligations and duties of different types have existed from ancient times, but, along with the development of merchandise-money relations, they have given way to cash taxes. The state perceived forcibly from its subjects: tribute and taxes.

With the apparition of the lawful state, there began to emerge the first theories about the state.

According to state police theory developed by H. Wolf, the activity of the state was determined in relation to the citizens' moral purposes.

The development of philosophy and political economy at the end of the 18<sup>th</sup> century allowed the transition to the next stage in the science about state. It was expected from the state the recognition of intangible personal dignity of citizens, their rights and liberties. In various countries of Europe, and later in Romania, there was initiated the development of the concept of lawful state, and subsequent changes in the state administration influenced also the object of the science about it. The previous names of "police" and "welfare police" lost their original meaning. To designate the complex functions of the state, it started to be used the term "administrative activity" and the term "police" was maintained only to signify the activity of the state of ensuring the safety of citizens and property. [3]

The new forms of production required support, but when they have developed and strengthened, the regulatory and tutelary system for them became a burden, which provoked protests. In France, where commercialism had the most marginal forms, this reaction occurred earlier and stronger.

The physiocrats' views about the role of the state represented in themselves an extremely new understanding of its tasks and goals.

The physiocrat V. Petti believes that the drawback of state administration lies in the fact that much of what needs to be governed by the laws of nature, ancient customs and universal agreements are subject to

regulation by law. It attributes the state important functions of ensuring the complete use of the workforce, as well as increasing its quality, suggesting providing the vagabonds and homeless persons with jobs from the public resource account, implicating them in the constructions of roads, building bridges and dams, and ore exploitation.

According to his opinions on the role of the state in the economy, V Petii in “Treatise on taxes” regulates the expenses of the state with a special destination, as follows:

- military expenses
- maintenance of leaders
- expenses for the church
- expenses for schools and universities; education
- maintenance of the (orphaned) children and the disabled
- expenses for roads, navigable rivers, aqueducts, bridges, ports and other facilities required for the use of the community.

A. Smith understood the purposes and tasks of the state the same as the physiocrats: the state must be involved as little as possible in the activities of private persons, because it is not able to change the natural laws on which this activity is based. According to A. Smith, the state and its followers are unsuitable for achieving economic functions. In his opinion, the freedom of economic activity is a prerequisite for its success.

Contrary to the mercantilists A. Smith believes that the genuine responsibilities of the state must be the protection of peace, persons and property, making an exception only for those cases in which the activity of the state is more rational than the private: public expenses for building railroads, expenses for schools, religious institutions and public constructions. [4]

From the standpoint of J. B. Say, the best of all financial plans - to spend less, and the best of taxes - the lowest tax. I. Kant formulated the idea of the supreme value and as a deduction – about the self-evaluation of human personality. This science of human personality autonomy is inconsistent with state regulation and tutelage, from which ensues the requirement of giving the personality freedom of action, as long as it does not harm the interests of other personalities.

J.S. Mill examines the economic role of the state and he assigns it the functions which are indispensable to the economic and social progress. The state must undertake the expenses for creating infrastructure, development of science, etc.

J.S. Mill gives great prominence to the system of state social insurance and taxation. J.C. Sismondi considers that the state must fulfil four functions:

- ensuring and maintenance of public order, justice, ensuring the rights regarding the person and the personal goods;
- public works, with the purpose of using good roads, large boulevards, healthy water;
- state education, due to which the children will receive education, and the adults will develop a religious sense;
- national protection, which ensures the participation to the benefits provided by the public order.

### 3. Economic theories

The main economic theories (classical, Keynesian, neoclassical, theory of economy of supply and monetarist) in their judgments about tax and fiscal policy, also arise from the level of development of market relations and from the role played by the state: either as a subject of regulation, referee - ensuring compliance with "the rules of the game", or owner-participant in the process of reproduction.[5]

The Keynesian theory includes elements of analysis of the general functioning of the economy and fundamentals the main macroeconomic directions of the regulation by the state. J.M. Keynes (1883 – 1946) considered that progressive tax system stimulates risk taking in capital investments. One of the important conditions of his theory is that economic growth depends on financial accumulation that is sufficient only in terms of total employment.[6]

According to Keynes, the state uses taxes as a “fixed stabilizer” of the economy, which must be actively manipulated, this direction was the most important point in the formation of the fiscal economic policy implemented in the developed countries in the middle of the 20<sup>th</sup> century. The importance of the fiscal potential within this direction is justified in terms of redistribution

of the resources in the economy. For the successful development of the economy, the fiscal potential of the population must be transformed in state investment potential. At the same time, there must be accomplished the state regulation of investments (Alvin Hansen, Seymour Harris), which will ensure the avoidance of the cyclical character of the development of the economy.

The English government applied J.M. Keynes' theory in practice, but subsequently rejected it, for the following reasons:[6]

- First, when inflation began to be chronic in nature due to changes in production conditions;
- Secondly, due to the development of economic integration there has been an increase in each country's dependence on foreign markets. Stimulating the demand by the state often had a negative impact on foreign investments.

Thus, in exchange for the Keynesian conception of “effective demand”, there was implemented the neoclassical theory of the “effective supply”.

The neoclassical theory is based on the advantage of free competition, on the stability of economic and production processes. The difference between the Keynesian and the neoclassical theory is the difference of approach relative to the methods of state regulation.

J. Mid, which elaborated the neoclassical model, attributed to the state only the indirect role in the regulation of economic processes, considering it as a destabilizing factor with an unlimited growth of expenses.

In the neo-Keynesian theory, fiscal problems have an important role. Therefore, the English economists I. Fisher and N. Kaldor considered sharing objects of taxation in relation to consumer, taxing in this case the final cost of the product consumed and accumulated deposits, and being limited only to the deposit interest rate. Hence, the idea of tax on consumption, which became also the way to stimulate the savings, and means to combat inflation. The money previously intended for the purchase of consumer goods, could now be oriented either towards investment or towards accumulation, which could turn into capital investments with the same budget policy. Autochthonous accumulations are already an economic growth factor in the future.

But during the decline of production, costs on the consumer market are reduced more slowly than revenue growth, thus causing a greater demand for products, therefore the collections of consumption tax are quite high compared to the income tax. At the same time, the fiscal system cannot fulfil the regulation function. But N. Kaldor believes that the consumption progressive tax rate introduced with the application of privileges and discounts for all types of goods (for example, daily use products) is fairer than fixed sales tax on sales for the people with low income. In addition, when compared to the income tax, this tax does not apply to accumulation necessary for future investment and stimulates growth.[5]

In the neoclassical theory preference is given to the credit monetary policy of the central bank, but also regardless of fiscal policy. The neoclassicists presume that this will create an effective mechanism of income redistribution that ensures full employment and stable growth of the national wealth. In the neoclassical theory there can be noted two directions: the theory of the economy of the supply and monetarist.

The theory of the economy of the supply involves reducing corporate taxes and granting tax exemptions, because, according to advocates of this approach, high taxes hinder the initiative of entrepreneurs and impede the policy of investment, renovation and expansion of production.

Another aspect of the theory – the mandatory reduction of state expenses.

The general legislation of forming the level of tax rates implies: large taxation base allows for relatively low tax rates and vice versa, the narrow taxation base of some types of taxes mandatorily implies high rates. It is also obvious that the high and low rates of taxes have different influence on the economic processes and on the business activity of entrepreneurs, causing different reactions relative to the investment processes.

If the taxes do not meet these requirements, the violation of tax limits is obvious. Professor A. Laffer elaborated the parable of the quantitative dependence between the progressive taxation and the budget income, and concluded that the reduction of taxes acts favourably on the investment activity of the private sector.

The marginal rate for budget collection is considered by A. Laffer to be 30%, in the limits of which it is augmented the sum of budget income. But in the case of budget collection of 40-50% of the income, when the taxation rate reaches the “forbidden zone”, the accumulations of the population are reduced, which entails the lack of cointerest in investing in one branch or another of the fiscal revenue. Some aspects of this theory were used by the USA government within the fiscal reformation from the '20 – '60's of the 20<sup>th</sup> century, subsequently, with the noting of the new amendments – in the '80s.[3]

The neoliberal conception of state regulation of the economy is developed on the basis of a sequence of theories known in the present, among which special attention is paid to the social market economy theory. The fiscal potential was examined as the total of resources for the implementation on a large scale of the social policy. Its value should be increased at the expense of reducing tax exemptions and tax rates increase, primarily taxes, the source of which is capital (W. Eucken, A. Muller-Armack, L. Erhard).

According to monetarist theory, taxes are one of the tools of actioning upon the volume of monetary mass. The tax potential realized as fiscal income to the budget allows the withdrawal of the exceeding monetary mass from the economy. The monetarist theory elaborated by the American economist, professor at the Chicago University, M. Fridman, adept of the idea of freedom of the market, suggests limiting the role of the state only to the activity that only the state can regulate: the regulation of the circulating finances. In addition, the tax reduction rate is emphasized. At the same time, according to the monetarist theory, one of the basic means for regulation of the economy is the change of monetary mass and of the bank interest rates. Due to the fact that, each year, the state increases its income, which entail supplementary inflation, it cannot be considered a factor in the creation of the wealth of the society, the regulation of the production volumes etc. But it can support the regulation of the monetary mass, through the withdrawal of the exceeding finances, if not by means of credits, then by means of taxation.

Implementing the “rough” policy of the regulation of the money circuit with the purpose of the destruction of inflation, the English government was not successful, because it did not take into consideration other factors that act on inflation, besides money mass. All the measures that were implemented did not have anything to do with the income policies, because the general belief was the liberalization of the market.

#### 4. Conclusion

Under the conditions of present realities of the market, taxation is the main economic form that connects the entrepreneur to the state. The contemporary state is the greatest owner, it performs the regulation of the public production, redistributes the largest rate of the national income of the country. At the same time, there must be a change in the theoretical considerations about the state, about its main purposes of its functioning, its forms of existence and its methods of management of society. The state, being the greatest owner and engendering market (merchandise) relations, has to invest the fiscal policy with a merchandise character, if not equivalent, at least partially refundable. The services of the state are different from the traditional services performed on a classic exchange base (merchandise – money), by the specificity of the realization, consumption and latent character of the results of the activity in the process of their performance.

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## Fiscal Management: Methods and Principles

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### Abstract

*The purpose of the fiscal state management is to ensure a stable fiscal balance, also to achieve long-term balanced by the taxes of all its functions under implementation procedures and fiscal process elements, and to optimize the flow of input and output tax. The central place in the structure of fiscal state management is assigned to optimizing the tax flows through applying the effective administrative decisions in the domain of tax revenue, tax expense and use of tax benefit. The fiscal management should be based on three basic principles: equity; predictability; efficiency.*

*Also, fiscal management is a process conducted entirely by fiscal management principles and fiscal planning and forecasting, tax law, tax audit, accounting and tax revenue analysis. However, fiscal management is based on general principles, implementation of which is achieved through concrete principles applied in the work of tax administration subjects.*

**Keywords:** tax, state, payments, principles, methods.

**J.E.L. Classification:** H0 ,H3.

### 1. Introduction

Principles of fiscal management organization are capable of ensuring the effectiveness and profitability necessary to measures planned regulation and control, thus increasing levies tax payments in the budget.

The literature has not yet tried to determine the complex fiscal management principles. Usually, we only examined the principles of management elements taxes. Therefore, I propose, fiscal management principles to be divide into two groups:

- General principles characteristic of direct tax administration;
- Particular principles corresponding tax administration functions, which is a form of fiscal management relations.

The Romanian Fiscal Code, Chapter II, art. 3 are shown directly principles of taxation, taxes and fees are based on:

- neutral tax measures in relation to the various categories of investors and capital, the ownership, ensuring equal conditions for investors, Romanian and foreign capital;
- certainty taxation, by developing clear legal norms, which does not lead to arbitrary interpretations, and the time, manner and amounts of payments to be precisely established for each payer that they can follow and understand the tax burden they bear, and also to significantly influence their decisions on the financial management of their tax burden;
- fiscal equity in the individuals through different taxation of income, depending on their size; d) efficiency of taxation by providing long-term stability of the Fiscal Code, so that these provisions do not lead to unfavorable retroactive effects for individuals and businesses, in relation to taxation in force upon adoption by them of major investment decisions.[1]

### 2. Literature review

The economic literature on contemporary missing unique approach to determine the principles of fiscal management.[2] Based on existing scientific studies, we highlight the following principles, which are based on the operation of the main provisions organizational VAT:

- principle of lawfulness, which means the need for strict adherence to normative-

legal acts in the conduct of business by the tax authorities;

- the principle of tax administration by running special subjects authorized for such purposes (officials of the tax authorities)
- the principle of achieving fiscal control as basic functional element of fiscal administration, as strictly defined by law;
- the principle of exercising control over all taxpayers;
- continuity of fiscal management;
- the principle of fiscal secrecy by the tax service officials;
- the principle of liability for offenses committed both by taxpayers, as well as by the tax authorities;
- principle prevails targeted measures to prevent infringements and sanctions;
- the principle of completeness, objectivity multilateralism and administrative activities;
- the principle of fiscal management under control while achieving state and public (state - control of the tax service on the subordinate structures public - public organizations control person of the legal system).

Given the above, can be formulated general principles of tax administration, which is the first group in the classification presented by the author. According to the author, the most important are:

- The principle of mutual connection and interdependence of the fundamental elements of tax administration, including tax planning, tax legislation and tax audit. If is an incorrect operation of one of these components is rational activity disturbs the whole system of tax administration.
- The principle of unity, which assumes unique approach to fiscal management of all subjects of tax law enforcement. Respecting this principle contribute to the completeness and the total tax laws while improving collaboration management level and clarity of the respective organs. Breach of subjects lead to the application by the tax administration by the laws arbitrarily, which is reflected negatively on the quality of tax administration and reduce tax perceptibility.
- The principle of neutrality and independence in relation to management

objects, which implies the impossibility of influencing the activity of the subjects tested objects tax administration. Compliance with that principle is ensured due to the lack of organizational subordination direct administration objects to subjects.

- The principle of generality, which requires that the tax administration is subject to all taxpayers without exception.
- The principle of accountability, which provides material liability and administrative organs of both tax administration and taxpayers as non tax legislation, normative-legal acts, regulations and rules.
- The principle of cost-effectiveness and efficiency of tax administration. The most common method of determining the outcome of state organizations is to assess the volume of work completed.

Effectiveness evaluation is performed by comparing the result to costs or resources consumed. Regarding taxation in Romania, the result of its activity is reflected in the income tax mobilized. In addition, the results of the work are illustrated also by the number of offenses speaks tax, the number of statements presented to the tax authorities and other indicators. The outcome of the tax authorities is related not only to the total tax revenue, but also the prevention of tax offenses, increase fiscal discipline (also expressed by quantitative indicators).

- The principle of centralization, which requires strict management of tax revenue is based on the specific structure of the county. Developing regional and local finances should not lead to full decentralization of the management of tax revenue as this may violate the unity of tax space of the country.
- The principle of division between law permits tax administration. The stability of the functional structure of the tax authorities allow the strengthening of a circle of rights and obligations in terms of their scope of competence of each administrative links. Because the list of administrative functions to the status of administrative linker is concrete, solving the tax administration by official person of the subject in questions in its sole discretion is not allowed. This principle addresses the problem of correspondence

organizational structure concrete level, which contributes to improving the resolution of the apparatus of state administration. The realization of this principle is oriented in distribution of functions between the bodies of tax administration system in which each element is able to perform local tasks and target indications and their entirety (elements) - the object to act effectively in complex administration. Target orientation state tax administration to be examined from the standpoint of achieving tax revenue plan tasks and achieve targeted state fiscal policy to increase the effectiveness of the tax system.

- The principle of financial interest to employees tax administration bodies aimed at increasing profitability and efficiency of tax administration.

Since the tax administration represent in itself as tax management relations, the need arises realization of general principles of tax administration in the form of the second group of principles characteristic of them - private. Within this group is to highlight the principles of tax planning and forecasting, regulation, control, recording and analysis.

### 3. Economic theories

Forecasting and planning are based on the following principles to a certain extent are specific tax planning and forecasting:

- Alternative (alternative prognostic conducting trials);
- Systematization (creating a system of indicators, methods and models for each object, which allows the construction of the whole picture of development);
- Continuity (development forecasts and plans and their adjustment periods);
- Complexity (done in close connection with the principle of priority and purpose of the study involves examining all sides of the interrelation and interdependence with other processes and phenomena);
- Adequacy (reflecting real processes in the economy);
- Guidance and priority (each plan must be oriented to achieve a particular purpose, and as priorities should be highlighted the

most acute problems in the sphere of concrete);

- Optimality (done by developing optimal planning based on various methods);
- Balancing and proportionality (adjustment indicators, establishing their proportions and enforcement);
- Social orientation (priority of addressing social issues);
- Combining the branch and county planning (implies the need to develop branch plans, taking into account the specific territory and rational use of local resources).

Planning and forecasting the state tax is systematic work undertaken to develop the planned tax revenues and other indicators, preparing decisions about the future tax system, taxation and tax mechanism. Because tax planning and forecasting macro takes place to determine the tax base for each tax and fee paying to their dynamics in some periods, calculating the level of disbursement of such payments, arrears status assessment tax and change the results of tax legislation. The goal of tax planning is to achieve the maximum level of the payments of taxes in the budget of the country.

Principles of tax planning in content are divided into:[3]

- legal (the "presumption of innocence" taxpayer lawfulness principle, the principle of using the complex legislation);
- economic (economic substantiation principle, the principle of calculating the complex economic and tax losses);
- organization (the principle of joint and operability perspective, the principle of professionalism, confidentiality).

Control over tax revenue is keeping by the tax authorities and accounting for each taxpayer in the calculation and breakdown of each type of tax and other obligatory payments. In the registration and record keeping occurs taxpayer track breakdown of taxes and duties, reception and processing of statements and reports, track the use of funds for maintenance tax authorities and the analysis and control. Fundamentals of record as elements of tax administration are:[4]

- Continuity;
- Use of data for planning and recording single units of measurement;

- Continuity and multiple use of intermediate information;
- Objectivity, completeness and analyticity, which provides comprehensive information about the object record;
- Periodicity;
- Evaluating the output of the fiscal body;
- Correspondence revenue and expenditure under the provisional nature of the facts determined economic activity.

Based on record tax revenues are formed reports tax revenues (by types of taxes), creating databases containing indicators of economic activity of taxpayers. It must therefore be considered indispensable element of evidence - analysis. Tax revenue analysis involves studying and evaluating volumes, dynamics and structure of tax revenues in the budget and extrabudgetary funds.

Analysis of tax revenue must satisfy certain methodological principles characteristic of economic analysis: scientific nature, complexity and systemic approach, objectivity, effectiveness, and profitability systematic nature.

The final conclusions of Organisation for Economic Cooperation and Development have mentioned that the main tendency in the development of administrative reforms are the introduction of the new principles, models and methods of governance, the perception of the business management techniques, the customer and services orientation the transfer of the market mechanisms and of the competition in the public administration.

In recent years, both in Romania and in the developed countries, an important problem was the increase of the complexity of the fiscal processes and norms.

The solutions of this problem are to make on a large scale a reorganization of the entire fiscal process, also to modify the management system of the fiscal process and fiscal authority, also to apply measures of reduction and improvement on the relationship with the taxpayers.

This transformation is called fiscal management which in accordance with its purposes and objectives represents the implementation of tax administration reform .

Analyzing the definitions of " fiscal management " , we can approach the fiscal state management as science, art and practice

of administrative decision-making based on multiple choices by choosing the most efficient of them.

The purpose of the fiscal state management is to ensure a stable fiscal balance, also to achieve long-term balanced by the taxes of all its functions under implementation procedures and fiscal process elements , and to optimize the flow of input and output tax. The central place in the structure of fiscal state management is assigned to optimizing the tax flows through applying the effective administrative decisions in the domain of tax revenue, tax expense and use of tax benefit.

The study of fiscal management principles implies the examination of methods that enabled their care. Since the management is based on the principles of regulation planning control and monitoring, their realization is possible by applying methods characteristic of these concepts.

The method of fiscal state planning serves to assess the ratio between the fiscal potential and actual tax deductions and determination, based on grounded volumes from an economically point of view and on the structure of the tax revenues in the budget for the planned period.

Also tax planning is oriented towards a high level justified by mobilization of taxes in the budget. The most common practices of tax planning are the following methods:

- Trend or extrapolation method based on data - about taking concrete taxes in a certain previous time period about the status of fiscal debt and about the development trend of taxable analysis;
- Expert method for development of forecast assessment - is applied to the calculation of concrete possible taxes(it is important the truthful evaluation for tax sampling until the end of the period) - is made based on real comparable dates for the assessment and forecasting of fiscal revenue are analyzed dates on tax base, revenues in the budget , socio-economic trends.

Also there are 3 types of tax revenue forecast:

- Forecasts for the determination of tax revenue - is achieved by :
- Conditional forecasting method (is based on obtaining the evaluations of tax revenue elasticity in tax base)

- The "fiscal computer" method (based on applying the model of typical taxpayer and model of aggregation)
- Time series forecasting of tax revenues under their own dynamics - is performed with the application : sliding weighted average method (Weighted Moving Average Method) , double exponential attenuation method ; Holt-Winters method; auto regression and sliding average models (all these methods have a single variable);
- The prediction of multiple variables models usage (perform to improve the quality of the examined indicator forecasting).

Regarding the state tax legislation, in world practice are applied the following methods :

- Changing the content and structure of the tax system;
- Replacement of a method or form of taxation with others;
- Change and differentiation of tax rates;
- Changing the tax exemptions and reductions, reorienting them on directions objects and taxpayers
- Total or partial exemption from taxes;
- Deferment or cancellation of the debt;
- Changing the tax sphere from spreading.

Fiscal control methods (methods and procedures for verifying the legality of economic transaction, the correctness of their reflection in documents) apply closely to their concrete form (are set out in the Tax Code article 97). The classification of the mentioned methods can be made after certain signs : the degree of uniformity of the applied procedures, the necessary amount of work, the requirement of controllers qualification, after automation possibilities. Based on the above, there are emphasized the following methods:

- the random control, that is the activity of selective verification of documents and significant operations in which are reflected the calculation, recording and payment of tax obligations owed to the general consolidated budget;
- electronic control, which is the activity of accounting and its sources verification, processed electronically, by using methods of analysis evaluation and testing assisted by specialized tools.

According to article 97, the tax audit may apply the following audit procedures:

- unannounced control, which consists in checking facts and documents mainly as a result of a complaint about the existence of violations of tax law without previously notifying the taxpayer;
- cross-checking, which involves checking documents and taxable operations of the taxpayer, in relation to those held by others; cross-checking can be unannounced.

Evidence plays the main functional element of fiscal administration geared to providing information to all levels of management with reliable information for recording and analyzing. In the records of tax revenue is performed the analysis which is one of the evidence methods (documentation, grouping and generalization, analysis). There are various methods of analysis of tax revenues, which in general are two large groups.

1. Quantitative analysis , which includes:

- Method of comparing (confrontation) (assessment of de facto tax revenues and fees compared);
- Structural study (after the budget system levels after types and groups of tax , on branches and types of economic activity, on subjects);
- Use of integral indicators (for their calculation justification of the listed indicators);
- Factor analysis(analysis of income change volumes compared with the reference periods after concrete factors);
- Group (various organizations of different signs).

2. Quality analysis , which involves the application of :

- Expert evaluation method;
- Monitoring method;
- Indirect method of potential tax assessments.

Studying individuals methods, there is a need to appoint their own tax administration methods (as analogy with the principles - general methods).

- Administrative forcing taxation methods imposed as penalties to the taxpayers: fines, asset seizure, suspension of operations on accounts , etc. because the taxpayers have to pay tax obligations, and

the above mentioned methods will be applied to all offenders and to all those who do not pay their debts to the legal terms.

- Stimulation methods that ensure legitimate taxpayers to fulfill tax obligations (tax exemptions applying to taxes, change the terms of payment of taxes, tax breaks, material stimulation of workers tax authorities and other control authorities).
- The method of regulatory alternatives, which occurred since the coming into effect of the Tax Code, which according to the taxpayer it strengthens the right to choose the legal form of work, the record keeping method and the making of reports. But since the taxpayer chooses his concrete behavior, it already becomes mandatory. For the tax authorities this represents the initial point in verification.
- Methods of controls and regulation, in which there are done fiscal records, unannounced controls, cross-checking, electronic or random controls etc, oriented to prevent and combat illicit activity of the taxpayer.
- Partnership method which stipulates in law to strengthen the coordination of litigious provisions and the missing in the legislation (insufficiently developed in Romania in relation with the lower level of the fiscal administration).

Exercising fiscal management, the state authorities are based on different methods of classification, are highlighted

- the method, that determines the voluntary fulfillment of obligations by the taxpayer to collect taxes;
- Foreclosure method to collect taxes;
- Fiscal control.

#### 4. Conclusion

It can be concluded that the fiscal management should be based on three basic principles:

- equity;
- predictability;
- efficiency.

Equity implies equality before the law of all parts of the tax system.

The predictability is understood adequate and timely response to different patterns of behavior of taxpayers.

Efficiency requires achieving maximum results at minimum cost.

Also, fiscal management is a process conducted entirely by fiscal management principles and fiscal planning and forecasting, tax law, tax audit, accounting and tax revenue analysis. However, fiscal management is based on general principles, implementation of which is achieved through concrete principles applied in the work of tax administration subjects.

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## Tomorrow’s Worker- a Short Portrait

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### Abstract

*This paper aims to investigate the way that the worker of the near future will look. For the proposes of this article we coin the term tomorrow to represent this near future, as predictions for anything further than a few years are way to sensible to change in ways that are not yet apparent to be more than an exercise in imagination.*

*We employ a three pillar approach in studying “tomorrow’s world”- the way general changes in behaviors and technologies change the work climate”, “tomorrow’s workplace”- some views on changes that will affect the organization of the future, and “tomorrow’s worker”- trends that are changing the way work will be done at the individual level .*

*This paper is a first step toward extensive research in this area and is not therefore meant to offer definite answers.*

**Key words:** future workplace, future worker, change, organizational change

**J.E.L. classification:** M54

### 1. Introduction

The world is changing at an increasing speed, new technologies, new ideas, new business models are continuously emerging and are changing every facet of our lives. Businesses and even entire industries are facing huge challenges in their quest for profit, and some even for their mere survival. The aftermath of the financial crisis has called into question the very essence of our

contemporary world economic system and the debate on ways of “fixing” it is involving, members of the academia, businesspeople, consultants, politicians, analysts, journalists. It seems that anybody that has a voice has an opinion, which considering the stakes is understandable.

It is our opinion however, that there is another change going on in our economies, one that although is comparatively less discussed has the potential to bring an unparalleled shift to the way businesses operate and that is the “revolution” in the way people will work.

For many people their work is one of the defining characteristics of their lives and all of us spend a significant part of our lives at work, therefore any change in this area has the potential to cause an important shift in all areas of our lives.

It is generally accepted that creativity and innovation are very desirable traits to have as an employee as „future will provide many exciting opportunities for workers who are flexible and who can demonstrate they add value to organizations” [1] but we think the change goes even further then that.

In this paper we will focus on the changes that the near future will bring, a period we refer to as “tomorrow” because we believe that first of all they are important enough to merit further scrutiny and, at the same time that focusing on a more distant time horizon (for ex: the second half of the twenty-first century) is an exercise in futility as the emerging of new disruptive technologies or ideas is almost certain.

We structured the paper on three pillars: the changes that are happening at a general

level, the level of society, of the way people live, communicate and interact, for convenience we will call this level “*tomorrow’s world*”; the second level is focusing on the way organizations are changing, we will call this “*tomorrow’s workplace*”; finally the third level is the employee, and the way he or she will be working, we will call this level “*tomorrow’s worker*”.

This article is meant as a start for further research in the way work and worker will look like in the future based on changes that are happening at different levels of society and how this changes are likely to effect the economies of tomorrow and, therefore it is not meant to offer conclusive answers.

## 2. Tomorrow’s world

In his book “*The Future of Work*” Jacob Morgan [2] identifies five trends of evolution at a general level that will have an important impact on the future. Based on this model we will discuss the implication that each of them is likely to have on the “*world*”:

- Behaviors

The impact that social media and collaborative tools have had on the way people create, access and share information can hardly be overstated. Today every organization, every product and every initiative is open to scrutiny and criticism by both clients and employees. While this offers huge rewards for companies that capitalize on this shift in behaviors it also means that poor products, services or workplaces are quickly penalized.

- Technologies

The time it takes for new technologies to mature and start producing changes becomes shorter and shorter. The impact that innovations like cloud technologies, big data or the internet of things will have on people’s lives is not entirely clear but what is evident is that it will be significant. It is therefore highly unlikely that businesses who want to stay relevant will be able to ignore them.

- The millennial workforce

The millennials form a „*new workforce brings with it a new attitude about work, new expectations, a different set of values, and different approaches to how work should be done.*”. Not only proficient with new technologies but also (generally) not willing to accept a certain “*way of doing things*” at face value, the integration of this generation in business and society in general is certain to cause a number of transformations.

- Mobility

With the ascent of new technologies and tools the traditional ideas of offices, corporate headquarters and a “*nine to five*” office day might soon become anachronistic. The possibility of working from anywhere, anytime coupled with the rise of virtual teams will definitely pose a major change. Whether it is for the better or for the worst it remains to be decided.

- Globalization

The continuous integration of national economies in one global economy, with supply chains spanning continents and teams working together from different “*ends*” of the Earth, the world is becoming “*smaller*” everyday and the choices people are able to make about where to work, travel and even where to live are increasing everyday.

## 3. Tomorrow’s workplace

There seems to be a general consensus that the way the classical organization is designed needs a major overhaul if it is to survive and thrive in the new environment of this century. Different schools of thought are focusing on different aspects that should, in their view, be changed and are drawing inspiration from those atypical structures that are appearing.

The fact that “*power, or control, lies at the core of bureaucratic and hierarchical organizations*”[4] is criticized by those that are fascinated by the success of businesses that are perceived to be more democratic, like Google or Gore. The classical idea that “*rational decision making and logical thinking are encouraged, and emotions are to be avoided*” [5] is found to be over simplistic by theorists and practitioners alike when



compared with systems that encourage creativity and innovation, even if they don't always lead to success.

There is a general consensus that the organization that will thrive in today's knowledge economy that is *“driven by leveraged intellect and enabled and facilitated through technology”* [6], will have to be *“focused on the productivity of the mind or rather the motion and movement of brain cells to turn experiences and information into knowledge”* [7].

One of the challenges that organizations are facing is their ability to find employees that have the necessary talents for today's challenges, to this respect *„an enterprise that is constantly exploring new horizons is likely to have a competitive advantage in attracting and retaining talent.”* [8].

Because competitive advantages tend to have a shorter life cycle than anytime in the past, with competitors identifying, duplicating and in effect neutralizing advantages in shorter and shorter periods it is clear that today *“sustainable competitive advantage in a fast-paced, inter-connected, global economy continues to drive the knowledge-intensity of business processes and interactions and will require a steady, engagement-ready, knowledgeable workforce”* [9].

#### 4. Tomorrow's worker

Although the view of the way people will work in the future is generally optimistic, one of the things that has become evident is that the chances of having a steady job for a long period of time (the kind of job people *“become pensioners from”*) with stable job requirements is a thing of the past, it is certain that *“the employees of tomorrow will have to deal with an increased level of uncertainty and risk.”* [10].

With the ever increasing importance of the quality of the workforce organizations are quickly becoming *“employee focused”* [11], rather than *“customer focused”*

Jacob Morgan [2] proposed a model which features seven key points that will define the worker of tomorrow.

- Has a flexible work environment

The idea of having to go to the office for a

*“nine-to-five”* work schedule is going to become less usual, of course it is not going to disappear over night, but, telecommuting, project based virtual teams, mobility and implementation of new IT&C products will increase the number of people that do not *“do”* hour long commutes every day.

- Can customize work

The idea of a standard kind of job description received at the beginning of a job that does not usually change until promotion (or termination) is likely to change as more and more organization allow employees to choose the projects they want to work for, at least for a certain percentage of their time. \

- Shares information

It is inconceivable that the trend in sharing our lives with the world, via social networks, internet sites and so on, will continue to be kept out of the office, increasingly companies are trying to develop internal collaborative platforms, that allow people to share their ideas, have them reviewed by their peers, search for specific expertise needed for certain project and jobs, and so on.

- Uses new ways to communicate and collaborate

The standard communication mediums like email, text messaging and phone calls is quickly becoming outdated, different collaborative platforms allow for much more complex interactions and ways of transmitting information (ex: podcast, movies, recommendations) which will make email look as outdated as classic mail seem now.

- Can become a leader

With the increase in projects in which people participate voluntarily at work, being able to come up with a good idea and being able to *“sale”* it to your colleagues is often all that is needed to become a project leader, this is already happening in companies like Google and Gore, so the classic model in which the company decides who is the manager and who are the *“underlings”* might

quickly become a thing of the past.

- Shifts from knowledge worker to learning working

As jobs become more complex and the skills needed to handle them become more narrow and multidisciplinary, it becomes more a problem of developing a mind frame for solving new and original problems than of having a “*toolbox*” of solutions that are applicable to any of the types (or classes) of problems you will encounter. Creativity becomes therefore very important and will be more than the “buzzword” that many consider it to be today.

- Learns and teaches at will

The classic model of learning throw a series of training courses designed, or at least choose, by the organization will quickly lose out to the opportunity of designing your own custom made “*curricula*” as the number of platforms offering courses at low cost or even free are increasing. This will essentially mean that any worker from anywhere in the world can become a specialist in the exact area he or she has an interest.

## 5. Conclusions

The fact that work itself, the working place and the worker are evolving towards a different model we do not currently completely understand is certainly a thing which is important and therefore requires more research.

This is not simply about making (or choosing) predictions about how the future will look like based on our tastes or biases, it is about understanding what the economy and the world will look like tomorrow, what skills people will need to be able to remain competitive and (hopefully) what are the best ways we can help them prepare for that future.

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# Tendencies in Communication Through Mass Media and the Economic Implications Nationally and Internationally

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## Abstract

*In the present research I will analyze the reactions and opinions of the interviewed persons regarding the directions in communication through mass media and also the economic implications nationally and internationally. At the same time, it is aimed at presenting some comparisons between: classic mass media channels (TV, Radio, Newspapers) versus digital, online and mobile media. Thereby, I will use the interview as a qualitative research method, to confirm or infirm the hypothesis of the present research.*

**Key words:** Mass media, communication, tendencies, impacts.

**JEL classification:** M 37

## 1. Introduction

At the beginning of the 21<sup>st</sup> century, audiovisual communication monopolized particularly the individual's life and society in general. All other forms of communication have been put into the shade.[1] Literati, worried about the metamorphoses that occur in the human mind, dominated by the audiovisual environment and its effects, initiate debates on current issues of media culture, that are conclusively talked about in the works of the International Colloquium, entitled “Television - Art or politics?”[2], organized by the European Institute of Culture and Education through Image, and Hyperion Academic Society, dedicated entirely to culture and media. The new political and social conditions, established as a result of the fall of the communist regime and changes of governments, led to a vertiginous development of the mass media, particularly the audiovisual. Turning points in this area have resulted in radical changes in

form and content of television programs, and the attenuation of European ideological censorship opened new paths for an independent development.

The most important step was to obtain freedom of expression. Audiovisual communication has become a free environment for diverse cultural messages, accessible to all social classes, regardless of political beliefs, religion, race etc. Even the approach of current reality has expanded into a multidimensional area, events are analyzed and discussed from different points of view. On TV, disagreements are accepted, and discussions and debates on different issues are at case. Another significant moment was the appearance of several radio and TV programs (national and privately held), including taking over foreign ones. But, along with its release from under the ideological censorship, media fell into the other extreme, the so-called economic race.

Along with the whole society, which is becoming increasingly privatised and commercial, and the audiovisual is trading. The new market relations require to the media system, both the private and public sector, to solve their financial problems single-handedly. Thus, information is "a product like any other, which sells and buys profitable or costly, condemned once it becomes unprofitable." [3]

## 2. Case Study

In this research, I will analyze the reactions and opinions of the respondents on the directions in communication through the media, and also the economic implications nationally and internationally.

Thereby, I'll use the interview as a qualitative research method in order to confirm or to rescind the hypothesis of this study:

a) In the next period (2015-2017), budgets invested in communication campaigns nationwide will record an increase over the period 2012-2014.

b) Public institutions in Romania will develop effective communication strategies through media.

c) The main traditional media channels will not decrease, but rather develop based on an ascending direction of online and mobile communication segment.

The topic of the interview is: Directions in communication through mass media, and economic overtones nationally and globally.

The main purpose of the research is to present the respondents' reactions on both directions in communication through the media, and economic overtones nationally and internationally.

The interview was addressed to individuals residing in major cities of Romania, but also to several people living in the United States of America, and in countries of the European Union, such as Germany, France, Italy and Austria, aged over 20 years, with university education, working in public or privately-owned companies, who have visited a large number of countries, worldwide. Undoubtedly, this category consists of people who are very often informed by the media and have a permanent contact with media organizations in each country. Furthermore, these people have very clear terms of comparison regarding mass media activity at European level. The interview was applied to 20 people.

Average duration of the interview was 25 minutes, including detailed answers to all questions.

The interviews took place between 25<sup>th</sup> February 2015 - 8<sup>th</sup> March 2015.

After summarization, interpretation and analysis of the answers, I'll answer the two research questions stated:

-Where are global media organizations heading, and what are the expectations from the audience?

-To what extent will communication strategies optimize in the public sector, in Romania?

The structure of the interview is as follows: 8 open-ended and closed-ended questions whose main objective is to measure the respondents' reactions on both directions

in communication through the media, and economic overtones nationally and internationally.

At the same time it is aimed at presenting some comparisons between: classic mass media channels (TV, radio, printed media) versus digital, online and mobile media.

At the end of the interview, after the 8 questions that follow the goals stated before, I have asked two more questions, whose main objective is to acknowledge the age and the actual residence of targeted subjects. I have chosen a structured interview in order to keep the same number of questions and the same disposal for all the respondents, likewise for the profound approach on the topic of the research.

I will interpret and analyse the answers for each question in the interview guide.

### **2.1. In your view, how do you think the budgets invested in communication campaigns will change nationwide, during 2015-2017?**

After addressing the first question in the interview guide, these percentages arise, in terms of amending budgets invested in communication campaigns:

- about 80% of the respondents believe that budgets for the period 2015-2017 will increase on a small scale as compared with 2012-2014.

- about 10% of the respondents believe that budgets for the period 2015-2017 will increase to a great extent as compared with 2012-2014.

- about 5% of the respondents believe that budgets for the period 2015-2017 will stay abreast of the period 2012-2014.

- about 5% of the respondents believe that budgets for the period 2015-2017 will decrease on a small scale as compared with 2012-2014.

### **2.2. Which of the following types of media channels do you think will score the biggest changes worldwide, during 2015-2020?**

After addressing the second question in the interview guide, these percentages arise, in terms of evolution of media organizations worldwide, by category:

- about 75% of the respondents believe that online segment will score the biggest changes over the next five years, globally.

- about 10% of the respondents believe that radio will score the biggest changes over the next five years, globally.

- about 10% of the respondents believe printed media will score the biggest changes over the next five years, globally.

- about 5% of the respondents consider that television will score the biggest changes over the next five years, globally.

### **2.3. Please explain your opinion about the media channels category that will score the largest changes worldwide, over the next five years.**

I will present the main opinions and arguments of the respondents on the evolution of media organizations worldwide, by category:

- "I think the online tends to grow more and more, trying to cover a larger number of branches."

- „There is a trend in using massively the online channel, and it will probably increase in the next years, I hope that radio and print media won't fall."

- „The ONLINE segment is the one that will score the biggest changes, since investments in this field are enormous at present, worldwide. Also, the interest of the population increases continuously and thus will increase the online audience."

- „The technology is developing quickly and online media keeps up, and the society adapts very fast."

- „The online will be the first source of information, which would lead to a customization of the online in order to meet every individual's needs."

- „I believe that television, radio and online platforms will record positive changes, and printed media will record negative changes globally."

- „Printed media will disappear to a great extent, probably it will move online."

- „Market penetration with devices that allow internet access - smartphones, tablets etc.-is becoming larger and larger, leading to a taking over of the information by the online channel."

- „I think in future the emphasise will be laid on online media, counting that lately information travels much faster online, costs are lower and perceptiveness, especially of young people, is very high. (A clinching example could be the campaign of President Klaus Johannis in 2014)."

- „The online has the highest rate of growth worldwide, and I believe that this will continue."

### **2.4. On what type of programs broadcast through the media do you think will be laid more emphasis during 2015-2017, globally?**

After addressing the fourth question in the interview guide, these percentages arise, in terms of trends of media programs worldwide, over the next three years:

- 60% of the respondents consider that during 2015-2017, the emphasise will lay more on economic, social and political news, worldwide.

- About 25% of the respondents consider that during 2015-2017, the emphasise will lay more on gossip and TV shows, worldwide.

- About 15% of the respondents consider that during 2015-2017, the emphasise will lay more on entertainment shows, worldwide.

### **2.5. To what extent do you think that most public institutions in Romania will develop effective communication strategies through the media?**

After addressing of the fifth questions in the interview guide these percentages arise, in terms of confidence in the development of effective communication strategies in the public sector in Romania:

- about 75% of the respondents have little confidence regarding the development of effective communication strategies in the public sector in Romania.

- about 25% of the respondents have great confidence regarding the development of effective communication strategies in the public sector in Romania.

### **2.6. To what extent do you think that the mobile communications segment will develop, worldwide?**

Question number 6 brings in the the evolution of a mass media category, especially in terms of its impact on the economy and society, worldwide. The results are as follows:

- about 90% of the respondents believe that mobile communications segment will grow hugely in the coming period, and the impact will be proportional as concerns the economy and society.

- about 10% of the respondents believe that mobile communications segment will not

score high growth in the coming period, worldwide.

**2.7. Do you think that in the near future the main traditional media channels will go out of use? (television, radio, newspapers) Please explain your answer.**

I will present the opinions and arguments of the respondents on the eventuality for traditional media channels to be closed or directed towards the online or mobile environment. The main responses of the respondents were:

- „Printed media will die out, if we consider the current trend. I don't think that television and radio will go out of use, but they will probably be associated with the online and accessed from mobile devices.”

- „Printed media reduces the activity in favour of the online and mobile segment.”

- „They will not go out of use but they will lose ground, and the audience will be shared with online platforms.”

- „I do not think they will go out of use, but I believe that online media will become leader of information.”

- „I do not think they will go out of use, they are the basis for development of other media channels.”

- „No. There are still traditional media channels and an audience that has a fancy for them.”

- In the near future traditional channels will not die out because the man got used to them, they are at hand especially for people who do not have internet access, smartphone, PC or they simply don't know how to use these means.”

- „No. There will always be a target audience for any media channel.”

- „No, the Romanian society is not ready yet.”

- „No, at present they are the main channels of communication, the Internet is expanding but there are still quite a few people who do not use the internet.”

- „No, because they are the main sources of information and can not be replaced.”

- „In the near future I do not think they will die out, but the audience will decrease a lot favourable to the online.”

- „No, but they will decrease as a percentage.”

**2.8. What are your expectations from media organizations in Romania during 2015-2020? Please explain your answer.**

I will present the opinions and arguments of the respondents as regards both the public expectations and demands, seen as general audience. The main responses of the respondents were:

- "To communicate only relevant and useful information for the population, and to consider a permanent internal development. „

- „Better information in a short time, if possible even in real time.”

- „I wish they would no longer lay as much emphasis on gossip shows, but emphasise those that deliver educational information, good and objective news and high-class entertainment.”

- „To provide information that is accurate, complete and timely.”

- „To participate actively in refuting corruption infractions, tax evasion and money laundering.”

- „To improve the way communicating information and their quality as well.”

- „During 2015-2020 I want a smaller involvement, or none at all, of politics in mass media, and these, whether radio, television, print media or online, to be able to work real, and to deliver professional and impartial information to citizens.”

- „To be objective and impartial in political terms.”

- „Not to bring to the fore only negative aspects of the economy and society.”

- „Economic news of social interest, national security, and things like that.”

- „More quality information, editorial independence, less gossip and handling.”

- „To promote less gossip shows and news.”

- „To provide accurate information, uninfluenced politically or built to achieve certain political goals.”

**2.9. How old are you?**

Questions were addressed to people aged over 20 years, as follows:

- 60% of the respondents aged 20 to 30 years.

- 40% of the respondents aged between 31 to 40 years.

**2.10. Where do you live at present?**

The questions were addressed to people living in the United States of America and in Europe - mainly Romania ( Bucharest, Sibiu, Brasov, Cluj-Napoca), Germany, France, Italy and Austria.

### 3. Results and conclusions

Most interviewees consider that the budgets for the period 2015-2017 will increase remotely as compared to 2012-2014.

Most interviewees believe that the online segment will score the biggest changes worldwide over the next five years, stating the next main arguments: The online segment is the one that will score the biggest changes, since investments in this field are enormous at present, worldwide; Also, the interest of the population increases continuously and thus will increase the online audience; The technology is developing quickly and online media keeps up, and the society adapts very fast; The online will be the first source of information, which would lead to a customization of the online in order to meet every individual's needs.

Most interviewees consider that during 2015-2017, the emphasis will lay more on economic, social and political news, worldwide.

Most interviewees have little confidence regarding the development of effective communication strategies in the public sector in Romania.

Most interviewees consider that mobile communications segment will grow hugely in the coming period, and the impact will be proportional as concerns the economy and society. The main opinions and arguments of the respondents on the eventuality for traditional media channels to be closed or directed towards the online or mobile environment were: Printed media will die out, if we consider the current trend. I don't think that television and radio will go out of use, but they will probably be associated with the online and accessed from mobile devices; Printed media reduces the activity in favour of the online and mobile segment; They will not go out of use but they will lose ground, and the audience will be shared with online platforms; I do not think they will go out of

use, but I believe that online media will become leader of information; I do not think they will go out of use, they are the basis for development of other media channels.

The main expectations and demands of the public, seen as general audience, relating to mass media organizations were : To participate actively in refuting corruption infractions, tax evasion and money laundering; During 2015-2020 I want a smaller involvement, even none at all, of politics in mass media, and these, whether radio, television, print media or online, to be able to work real, and to deliver professional and impartial information to citizens; Economic news of social interest, national security, and things like that; To be objective and impartial, in political terms; Not to bring to the fore only negative aspects of the economy and society.

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## Application of the Analytic Network Process to competency Assessment Process of IT Professionals

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### Abstract

*The paper proposes the use of the Analytic Network Process (ANP) applied on the competency model defined by the author in previous studies. First, the competency model was decomposed into a network structure containing three layers: goal, criteria and alternatives. Five technical experts were asked to make pairwise comparisons between the competency criteria and the alternatives. The results were used in determination of the weight values for the each competency category and for each competency element within the competency model. The prioritization of the competences was made for the performance level: expertise. Also the results were compared with the ones obtained by using the Analytical Hierarchy Process in previous studies. The ANP method will be implemented into a competency assessment tool. A block diagram was defined in order to underlie how the ANP method will be applied into the competency assessment tool. The paper highlights the applicability of ANP method in the competency assessment process.*

**Keywords:** competency register, IT competency assessment, analytic network process.

**JEL classification:** C44, M51

### 1. Introduction

Many IT organizations are adopting different method in order to assess the competencies of their technical professionals. The use of this methods are helping the companies to enhance their competitiveness. It is important to have an efficient and transparent competency assessment tool, although it requires a great deal of time,

money and effort. In case this tools are poorly constructed, it may lead to wasted resources, and not assigning the right people into the right process at the right time.

Choosing the appropriate method for assessing the competencies of the IT professionals is a strategic issue, which can be restricted by the time requirements, resource needs, conformity with the organizational rules and objectives. Solving these strategic issue, can involve a decision-making process with multiple-criteria for evaluating the alternatives.

Deciding the weights of each competency is not an easy task since there are many aspects that should be taken into consideration. We propose an evaluation method based on a multi-criteria decision method (MCDM) named Analytic Network Process (ANP). The ANP method proposed by [1] is a mathematical theory that can deal with all kinds of dependence and interactions in complex decision making problem [2].

The ANP method is a general form of Analytical Hierarchy Process that was analysed in previous studies by the author [3], but there are many decision making problems that cannot be structured in a hierarchical structure due to their interactions and dependencies between the criteria analysed. In such cases, the structure of the problem should be constructed in a network structure.

AHP method has been applied in different contexts, such as: economics, finance, marketing, social sciences, and technology [4]. The method has some advantages in using the hierarchical network decision by incorporating the dependency and the feedback, creating and representing relations between the clusters and its elements, synthesizing mutual effects by a single logical procedure [5]

The method was applied in different decision making processes: enterprise partner



selection for vocational education [6], logistic strategy selection [7], and competency assessment domain [8].

## 2. The Analytic network process

The ANP is multi criteria decision method (MCDM) which extends the AHP (Analytic Hierarchy Process) method. The AHP is based on the representation of a decision problem using a hierarchical structure that holds dependencies and interactions between the elements. The main disadvantage of the AHP method is that is not allowing the dynamic modelling of the elements that are contained in the hierarchical structure. The interdependencies between criteria sometimes are not sufficiently analysed also [9].

The ANP structure is focusing with the decision-making problems containing interdependencies. In the network structure created the nodes are representing the criteria and elements of the structure are arranged in clusters. Each cluster contains similar functions and their interdependency resulted as a synergy [2].

The source node is the node that represents the origin of the path of influence and the destination node is called a sink node. The influence direction is depending on the network user. The base of the arrow is the sink and the node is the head (the source of the influence). The children are influenced by parent nodes. According to [10], the user has to be consistent in the paths of influence.

The steps of the ANP method are described by [11] and are the following:

1. Defining the decision goal. The process of decision-making is represented by the process of defining the decision goals and selecting the optimal alternatives [12].
2. Establishing evaluation clusters. It is requires to establish the clusters, the sub-criteria cluster and the alternatives clusters.
3. Applying the ANP model. The ANP is a multi-criteria process for decision making that may transform qualitative judgements into quantitative values. According to [13], the ANP can be defined by a

single network or a number of networks.

4. Selecting the optimal solution. The ANP use a ratio scale to prioritize the elements of the criterion by making paired comparisons and synthesize the overall priorities for the alternatives. The decision maker are asked to respond through a series of pairwise comparisons in order to determine the importance between the elements. For evaluating the weights of elements. First, a super matrix is defined [14], and each submatrix is composed by a set of relationships between the two clusters. The submatrices are multiplied until the columns are stable and become identical in each block of submatrices. The weighted super matrix can be raised to calculate the overall priorities.

The ANP model is providing a clear way to model complex and dynamic decision-making problems that are influenced by other external factors. The ANP approach is capable to establish the interdependence among elements by obtaining the weights of prioritization between them. By capturing the outcome of dependence and feedback within and between clusters elements, the method allows the possibility to find an optimal solution in a changing environment with uncertainty and dynamics, where the objectives are not simply identified due to their correlations with other elements [15].

## 3. Methodology

### 3.1 Research Method

The aim of the current research was to estimate the weights for each competency category and for each competency element within the competency model defined by [16] using the ANP method and compare the results from the application of AHP method used in previous studies [3].

By applying the ANP method, there can be established the optimal solution for determination and ranking the competency elements at the performance level: expertise. The competency elements were defined in the ontology presented by [17]. Each competency element within each competency

category represents as a set of knowledge and abilities that an IT professional must possess in order to achieve a specific performance level. The performance indicators presented in the ontology are: awareness, familiarity, mastery, expertise.

The competency model defined by [16] contains 15 PM competencies grouped by three categories: methodical, personal-social and strategic-organizational. The methodical category is containing the following competency elements: knowledge of applied PM methods; technical analysis of information; the automation and optimizing of work processes; the evaluation, review and quality assurance of work and implementation of the maintenance technique. The personal-social category is containing the following competency elements: teamwork, creativity, vigilance, efficiency, motivation, ethics and stress resistance. The strategic-organizational category is containing the following competency elements: permanent organization; health, security, safety and environment and respect of work methods and procedures.

In order to illustrate the implementation of the ANP method, first a complete structure was represented based on the competency model defined by [16]. This structure established the model that will be used in order to evaluate and compare the competency categories and the competency elements within the competency model. The structure is containing three layers: the goal, three clusters composed by the competency categories and third layer: the competency elements within the competency model.

The suggested methodology was tested on a small group of five IT professionals that are working in software Romanian organizations. Even though the number of the IT professionals is small, in this test we can show the first results of using the ANP method and comparing the results with the ones obtained by applying the AHP method in previous studies [3].

The IT professionals filled a questionnaire related to each competency category and each competency item within the competency model. Their responses has been synthesized using ANP method. For each decision, the decision-maker (in our case, the IT professional) has to indicate the preferences

or priority of each competency category or for each competency element in terms of how it contributes to each criterion. In Table 1 is described the used scale proposed by [1].

Table 1. AHP pairwise comparison values

Judgement	Comparison Value
Equally important	1
Weakly more important	3
Strongly more important	5
Very strongly more important	7
Absolutely more important	9

Source: Adapted after [1]

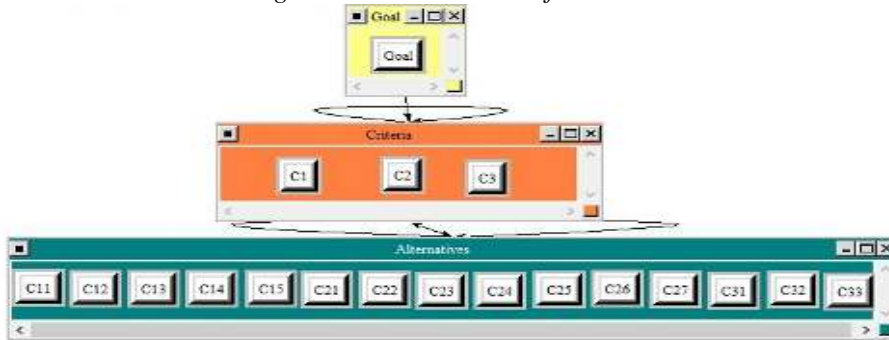
After the preference for each competency category and for each competency element is made, a pair-wise comparison matrices is constructed. After the pair-wise comparison matrices is developed, a vector of priorities in each matrix is calculated and normalized to sum to 1.0 or 100%. Then, the pair-wise comparisons are made between the alternatives (in our case between each competency item within the competency category). The results were highlighted and compared with the results obtained by applying the AHP method.

### 3.2 Analysis and Discussion

The first step in ANP method implementation is to construct the decision structure. The ANP structure was represented using the software tool Super Decisions (available: <http://www.superdecisions.com>). In Figure 1 is described the structure based on the competency model defined by [16].

In Table 2 are described the weights of each competency criteria both for ANP method and AHP method. The AHP results were computed in previous studies [3]. As we can observe, at the expert level of performance, the methodical competencies have the weight of 68%, the personal-social competencies 18% and the strategic-organizational competencies 12%. By comparing the AHP results and ANP results, it can be observed that there is not significantly difference between the weights of technical category, there are small differences between the weights of the personal-social and strategic-organizational competency categories. Similar, we can compute the weights for each competency element from the competency model defined by [9].

Figure 1. The Structure of ANP Model



Source: own development using Super Decisions Tool

Table 2. Competency categories overall weights

Competency category	ANP Priorities	AHP Priorities
C1	68%	61.5%
C2	18%	21%
C3	12%	17.5%

Source: own computation

In the methodical category, priority has the competence knowledge of applied PM methods (0.34%), followed by the technical analysis of information. As we can observe, there are some differences between the results obtained using AHP method. The significant difference is in case of two competency item:

Technical analysis of the information: ANP method – 0.29%, AHP method – 18% and for

Automating and optimizing work processes: ANP method – 0.16%, AHP method – 0.27%. In the personal-social category, the priority is given by the teamwork competency (0.23%), followed by the creativity competency (0.21%). There are significantly differences

between the results obtained using AHP method, especially for the results of teamwork competency: ANP – 0.23%, AHP – 0.15%, creativity: ANP – 0.21%, AHP-0.17% and motivation: ANP - 0.14%, AHP - 0.2%.

In the strategic-organizational category, the priority has the respect of work methods and procedures (0.57%). There are significantly differences between the results obtained using AHP method, especially for the results of permanent organization competency: ANP – 28%, AHP – 21% and for respect of work, method and procedures competency: ANP – 0.57%, AHP – 0.49%.

The results obtained using both methods: ANP and AHP are described in Table 3.

Table 3. The competency elements weights

Competency element	ANP Weight	AHP Weight	Competency element	ANP Weight	AHP Weight
C11. Knowledge of applied PM methods	0.34%	0.34 %	C24. Efficiency	0.13%	0.12%
C12. Technical analysis of information	0.29%	0.18 %	C25. Motivation	0.14%	0.2%
C13. Automating and optimizing work processes	0.16%	0.27%	C26. Ethics	0.07%	0.12%
C14. Evaluation, review and quality assurance of work	0.11%	0.10%	C27. Stress resistance	0.05%	0.08%

Competency element	ANP Weight	AHP Weight	Competency element	ANP Weight	AHP Weight
C15. Implementation of the maintenance technique.	0.10%	0.11%	C31. Permanent organization	0.15%	0.21%
C21. Teamwork	0.23%	0.15%	C32. Health, security, safety and environment	0.28%	0.3 %
C22. Creativity	0.21%	0.17%	C33. Respect of work methods and procedures	0.57%	0.49%
C23. Vigilance	0.17%	0.16%			

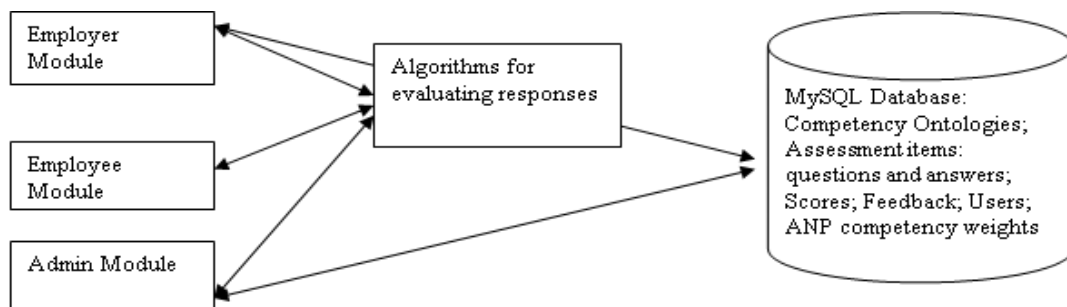
Source: own development

#### 4. Integrating ANP method in a competency assessment tool

The results of the ANP algorithm will be included in an online assessment tool which is going to evaluate the competencies of IT

Professionals within Romanian software organizations. A block diagram representing the system architecture is outlined in Figure 2.

Figure 2. The block diagram of assessment tool application architecture



Source: own development

The application is developed in PHP programming language and is structured on different modules for each participant part: the employee, the employer and the system administrator.

The database is developed in MySQL tool and contains: the competency ontology concepts defined by [17], the employee’s information, the assessment items questions, the assessment items answer, the score, the feedback attached to each answer, the response provided by the employee during the evaluation for each assessment question and the ANP competency weights.

The employee module offers multiple features. The login into the application is required (new users have the possibility to register a new account). Then the employee can take a new assessment and has to select an answer for each assessment item. Using the algorithms for evaluating responses, a score will be calculated for each given answer. The score is computed with the aid of the ANP competency weights. In the end a

page with results that contains a feedback will be received.

The Administrator of the application can select an assessment item and for a performance level selected can add or modify the feedback link.

#### 5. Conclusion

The aim of the study was use an evaluation method based on a multi-criteria decision method (MCDM) named Analytic Network Process (ANP) in order to estimate the weights for each competency category and for each competency element within the competency model defined in previous studies. The results were compared with the ones obtained by applying the Analytic Hierarchy Process (AHP) computed by the author in previous studies. With the aid of ANL method we can find the optimal solution for determination and ranking the competency elements. It was underlined the integration of the ANP method into the competency assessment tool.

A limitation of our study is that the assessment tool was not implemented yet in a Romanian IT organization, so no relevant results are available. Future research should be directed through implementing the assessment tool into in a Romanian software organization.

### Acknowledgment

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## Education Analysis in Romania- a Quantitative Approach

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### Abstract

*Being in a full process of catching-up the developed countries, Romania needs to improve her relative score of different indicators that are defining both the current economic development stage, as well as the quality of investment environment (investment environment being primordial for the economic growth stimulation and the catching-up process acceleration).*

*In this paper we have as main goal to make a detailed analysis of the education situation in Romania, by using a descriptive-quantitative approach. Education is primordial for the economic development and for the investment environment, directly influencing the labor force productivity, and also the demand and offer conditions.*

**Key words:** education, scholar population, economic development.

**J.E.L. classification:** I20, I21, I25.

### 1. Introduction

Being considered a key factor for the socio-economic development, education favors progress, stimulates intellectual curiosity, adaptation capacity, creativity and innovation, ensuring the necessary and qualified workforce for all the activity sectors inside a national economy, but in the same time is representing one of the most powerful instruments of which we have at our disposal to reshape the future, or, at least, to have a desirable future.

Naturally, all of this affects in a direct way the level of economic development and can be a key factor for reducing the development gap in comparison with other west-European country members of EU. [1] Starting from this hypothesis, we developed the current paper as a study of scholar population evolution in Romania, taking into

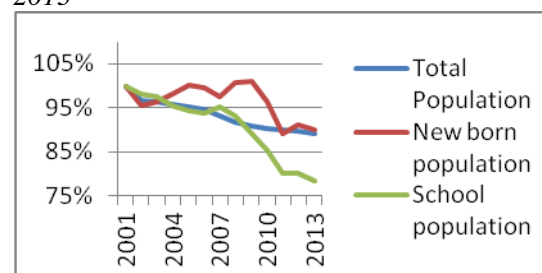
account the period 2001-2014 and focusing on the main factors that influenced the dynamics of this macroeconomic indicator.

The main considerate for which we choose to approach this subject is given by the fact that we need an objective analysis of the educational environment that will help us to identify the root causes, but also the effects that appeared at the level of scholar population.

### 2. Scholar population evolution

Considering the data selected from the national statistics, we developed a correlation between the evolutions of the 3 demographic indicators: scholar population, total population and new born babies from the year's corresponding to the analyzed scholar years. (Figure 1) We can therefore notice that, while the total population is decreasing year after year, the scholar population decreased also, even with a greater pace, having less and less people enrolling in the Romanian scholar system.

Figure 1. School/New born/Total population in Romania in the period 2001-2013

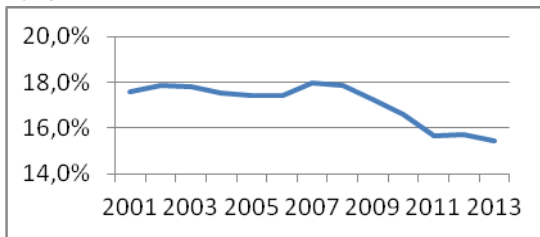


Source: [www.insse.ro](http://www.insse.ro)

Even if there are increases in birth rate in the some of the analyzed period, if we report to population migration and annual deaths, the total Romanian population continues to decrease year after year, without exceptions. Romania continues the demographical decline, and less new born population means

less scholars in all the study levels.

Figure 2. % School population in Total Population in Romania in the period 2001-2013



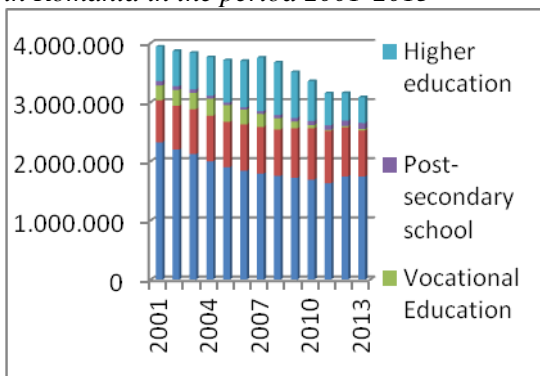
Source: [www.insse.ro](http://www.insse.ro)

Next, we will analyze the scholar population in Romania on education level, and in figure 3 we can observe that the biggest category is the primary school and shows a negative trend from 2001 to 2011 and stabilizing until 2013. On the other side, the secondary school has an oscillating trend. If until 2007 the trend is positive, in the period 2007-2011 is declining and in 2011-2013 is more stable.

The number of population registered in the vocational school slight increases until 2005 and then sharply declines until 2011. Moreover, post-secondary school population decreases until 2006, and sharply increasing until 2013.

The last category, higher education, has a positive trend until 2007. From 2007 to 2013 the number of students decreased year after year.

Figure 3. School population by category in Romania in the period 2001-2013



Sursa: [www.insse.ro](http://www.insse.ro)

The decrease of student number in the past years has multiple causes. More and more young people are not any more interested in higher education because they can't find opportunities on the labor market

after they finish the studies. This situation highlights that after 1990 there were none or very limited studies about the demands on the labor market- creating a big disconnect between the skills gained in university and what is required at work.

Moreover, companies are looking for already trained persons to cut the education/R&D costs (vicious circle), therefore lots of young people remain unemployed or are working in different other fields.

Another cause is given by the increased share of scholars that are not graduating high school and therefore they can't go to university. Another obstacle is the scholar tax which is high compared with the average income in Romania (sometimes being even prohibitive for some potential students). According to National Association of Students in Romania, almost 40% of students that were supposed to finish the university in 2013 at 20 public universities abandoned their studies.

In this context, Romania is between the last countries in Europe: has with 15% less university graduates compared with EU average and 200.000 children's without access to any form of education. This fact is maintained because of the very low shares of budget redirected to education and produces big imbalances in both social sphere, but also in the economic one and slows down the catch-up process to developed countries [2].

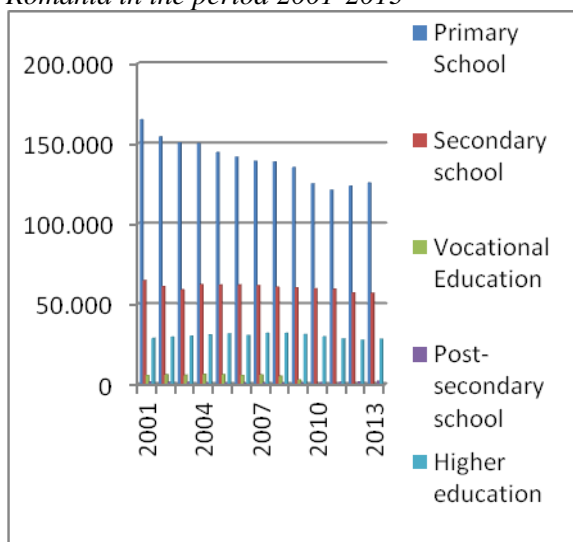
### 3. School staff evolution

The evolution of population school determined fluctuations in the school staff, especially in the public area. The decline in primary schools is obvious, even drastic- there are 3 times less primary schools than in 2001. We can notice this negative trend also in the school staff evolution, which fortunately looks a bit more promising in the last year of analysis. On the other side, the number of high-schools constantly increases, while the school staff is oscillating across the analyzed period. The number of vocational schools is increasing until 2008, but they sharply decrease after, situation reflected also in the staff number. In the post-secondary schools the situation is changing- the number of units is slightly increasing, as well as the staff number.

Considering the number of universities, this is decreasing constantly. Considering the staff, we can see an increase until 2010, in the last 3 years the number being on a descendent slope. [3]

For the primary school, an explanation for the big decrease of units in the analyzed period is the merge of units, especially in the rural area, where the transport of children is done with school buses.

Figure 4. School staff evolution in Romania in the period 2001-2013



Source: [www.insse.ro](http://www.insse.ro)

During the 13 analyzed years, the absolute decrease was approx. 53.000 school staff members. On educational level, the biggest decreases were in the primary school. Also, the vocational school staff decreased significantly, as a consequence to the decision that the high-schools took over the places for Arts and Vocational Schools. The decrease of schools staff has been sharper in the rural area, by comparison with the urban one.

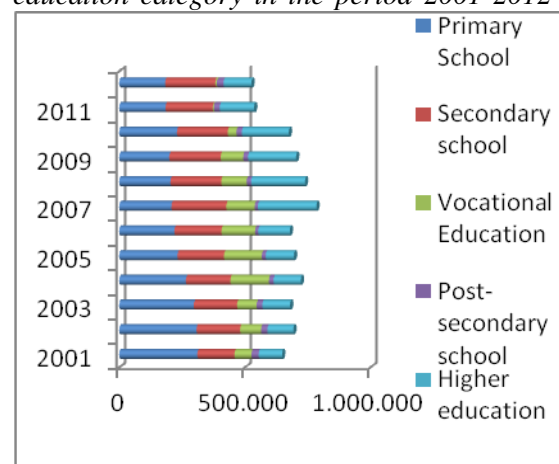
Excepting the staff from secondary schools, in all others the number has decreased in the analyzed period in the rural area. Even so, for this indicator, Romania is very close to the Europe average.

The number of scholars per one teacher was relatively constant for the secondary education. In the rural area, on the primary school level we continue to have the lowest ratio scholars/teachers: 10 scholars to 1 teacher, favorable situation for the time allocated to each scholar, but unfavorable considering the expenses.

#### 4. Number of graduates and the abandon degree.

Analyzing the data's from figure 5, one thing is for sure: only one fraction from the one's enrolled in different school levels are also graduating. Their number decreases considerably in the primary school and vocational one, but on the other side, the situation is high-schools and university is better.

Figure 5. Number of graduates by education category in the period 2001-2012



Source: [www.insse.ro](http://www.insse.ro)

For improving the situation we need to reduce to minimum the abandon rate and to increase the quality and relevance of public educational system.

Considering the private system, the school population had an oscillating trend, the peak being in the year 2008, after having a considerable decrease to 152.000 scholars.

Split by category, the highest number of scholars is encountered in universities, even if currently the number is declining. The primary school level is in a continuous ascension, while the secondary school level has been developing until 2010, the number being reduced to half in the period 2010-2012. [4]

The private vocational schools are less and less used. One of the causes for the reduction is that the fees and tuitions are not subsidized by government, and on the other side, not all the institutions are accredited.

Even if the number of registered scholars declined at some levels of education, this type of institutions had initial advantages, as better professional perspectives- bigger



diversity for international languages and IT domain courses.

*Table 1. Rate of scholar abandon in Romania in the period 2001-2012*

	Primary school	Secondary school	Post-secondary school
2001	1,2	5,1	9,5
2002	1,2	5,4	8,1
2003	1,5	4,2	7,7
2004	1,7	3,9	9,2
2005	1,8	5,1	8,6
2006	2	5,8	7,5
2007	2	4,1	4,8
2008	1,7	3,6	5,9
2009	1,6	2,9	5,5
2010	1,8	4,2	6,3
2011	1,8	4,2	6,1
2012	1,4	2,9	8,9

Source: [www.insse.ro](http://www.insse.ro)

The abandon rate indicator (see table 1) allows the evaluation of educational system internal efficiency, representing also an important indicator for analyzing and planning the flux of scholars by education level. The ideal rate should be very close to zero. An increased rate of abandon highlights serious structural problems in the educational system internal efficiency.

Unfortunately, we can say that the scholar abandon left a big scar in the Romanian educational system. The biggest influence was on the secondary school level, where the number of abandons is very high. In the last 2 years we can see fortunately a decrease of abandon in high-schools, and also in the primary level.

In the last years, the abandon became a much discussed subject and moreover, very analyzed and debated. On one side, the documents for educational policies propose concrete strategies for improving the phenomena in accordance with the European imperatives. On the other side, the education practitioners (managers, professors, parents) or mass-media are highlighting the abandon cases and are evaluating the global efficiency of the Romanian system through this indicator.

## 5. Conclusion

The education situation in Romania, by considering the analyzed indicators, reveals multiple issues that are requiring the immediate attention of decision makers: the reduction of overall scholar population in the last decade, the sharp decrease of scholar population in the last 5 years, and also the high rate of school abandon. While the current paper approaches education from a descriptive-quantitative point of view, we propose that in our future research efforts to evaluate the direct impact of education (by using the above analyzed indicators) on economic development. Without an efficient educational system, we will be unable to recover the economic and social gaps to developed countries.

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# A Model of Innovation and Sustainability: the Regional Business Ecosystem

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## Abstract

*The paper focuses on the importance of the region in the development of a business ecosystem, with focus on territorial capital an innovation. The approach stems from the need for a more focus, more flexible regional policy towards building a sustainable, efficient business ecosystem.*

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**Key words:** territorial capital, entrepreneurial ecosystem, entrepreneurship  
**J.E.L Classification.:** D78, L19, M13

## 1. Introduction

Starting from the concept of business ecosystem, defined as “An economic community supported by a foundation of interacting organizations and individuals—the organisms of the business world. The economic community produces goods and services of value to customers, who are themselves members of the ecosystem. The member organisms also include suppliers, lead producers, competitors, and other stakeholders. Over time, they coevolve their capabilities and roles, and tend to align themselves with the directions set by one or more central companies. Those companies holding leadership roles may change over time, but the function of ecosystem leader is valued by the community because it enables members to move toward shared visions to align their investments, and to find mutually

supportive roles.” ([1], [2], [3]), the regional business ecosystem is believed to be the same 'biological organism', but on a more narrow scale, thus believed to be more flexible and hence, adapting faster to external and internal inputs.

Innovation is a a like input, both generated endogenously and externally, the actors in a regional ecosystem being affected by it and, at the same time, being generators of innovation. The actors are components of the regional business ecosystem alongside Flows (knowledge and financial), that is Nodes and Links. ([12], [13], [14], [15], [16]). The boundaries of the ecosystem ([17], [18]) have been an important element in the definition of an efficient generator of value, which is at the same time capable of growing and developing ([19], [20], [21], [22]).

## 2. Business ecosystems, territorial capital and innovation

In the globalized knowledge-based economy of nowadays, regions compete mostly on “competitive advantage” (Porter) and less on “comparative advantage” (Ricardo). So anytime, anywhere, a good regional policy, especially for those less-developed, is badly needed (if the best one is difficult to reach). In a knowledge-based economy the development key driver is knowledge, or, if we regard it from an active perspective, “knowledge capital”.

As [4] and [7] showed, “the central role played by spatial elements in the creation and diffusion of knowledge, both evidenced by empirical analyses or deductively derived from theoretical elements. Different reasons were given for the importance of space in the creation of a knowledge-based economy: externalities stemming from urban environment, knowledge spillovers subject to strong and visible distance-decay effects, collective learning based on a relational

space where economic and social interactions take place and are embedded into geographical space.”

So knowledge capital is not “something abstract” that can flow easily across the whole globe over the internet from a person to another, or from a firm to another, or from a region to another, etc., but it “develops and accumulates through slow individual and collective learning processes, and grows through information, interaction and local knowledge”. Further, the knowledge generation is first of all “a local process, rooted in the historical development of the area, accumulated over time through experience, local culture in local labour market and local context, and therefore difficult to transfer to somewhere else”. As information, data and knowledge of a person are “embodied and interwoven into a brain and/or body”, also the data, information and knowledge of a human space (locality) are “embodied and interwoven into a territory and/or a geography”.

The concept of “territorial capital” was proposed first of all by OECD in its Territorial Outlook (OECD, 2001), and subsequently used by DG Regio of the Commission of the European Union: “Each Region has a specific ‘territorial capital’ that is distinct from that of other areas and generates a higher return for specific kinds of investments than for others, since these are better suited to the area and use its assets and potential more effectively. Territorial development policies (policies with a territorial approach to development) should first and foremost help areas to develop their territorial capital”

The elements of territorial capital as proposed by OECD (2001) Territorial Outlook are:

- ▲ the area’s geographical location, size, factor of production endowment, climate
- ▲ the area’s traditions, natural resources
- ▲ quality of life or the agglomeration economies, business incubators and industrial districts or other business networks
- ▲ untraded interdependencies’ such as understandings, customs and informal rules, social capital
- ▲ combination of institutions, rules,

practices, producers, researchers and policy makers (the ‘environment’ according to Marshall)

### **3. Innovation in a regional business ecosystem**

In order to conceive and develop a better regional policy it will be useful to harmonize the “territorial capital theory” with the “smart specialization approach”.

The strategy of intelligent specialization, as it was recently synthetically presented in [27], [28] is part of the “New Industrial Policy”, which “aims to project and make compatible two critical, and somehow conflicting, prerequisites: identifying priorities in a vertical logic and keeping market forces at work in order to emphasize the domains and areas where priorities should be selected from”.

As a new and innovative concept of innovation policy, intelligent specialization emphasizes a prioritization principle in a “vertical logic” (which should favour certain technologies, domains, companies) and develops an identification method of areas intended for the innovation policy intervention.

Usually an innovation regional strategy is still projected in terms of horizontal and politically neutral measures (according to neoclassical economic theories). Normally it aims to improve the general framework of conditions and facilities (good universities, human capital, intellectual rights property, research and ITC infrastructure, competition, openness and so on). In contrast with the “the current, still dominant economic neoclassical approach”, intelligent specialization refers to vertical and non-neutral intervention logic, i.e. an identification and selection process of intervention desirable areas, which involve choices of technologies, domains, subsystems, even companies which could be favoured within the regional policy.

According to [27], [28], specifications (objectives, processes, approaches, etc.) of the intelligent innovation policy are:

- Non-neutral policy
- - Keeping market forces in function (entrepreneurial discovery)
- - Interactive processes between the political and private sector

- - Activity as an adequate intervention level
- - The experimental nature of the policy

Through the concept of intelligent specialization, Foray (together with the ex-ante conditionality of the EU Commission of innovative strategy of intelligent specialization of each region) goes beyond political measures of the neoclassical economic science. The entrepreneurial innovation process – especially the discovery entrepreneurial process - is brought forward, which is a good, if not sufficient fact.

If [27], [28] brought to attention a new approach and/or a new process, [29], [30], [31] drew up a new framework (vision) of analysis of regional innovation. He starts from regarding the innovation systems (entities) as complex innovation adaptive systems, by applying the Santa Fe Institute vision, of regarding the economy as an evolutionary complex system, to the regional economic development problematic. Cooke also departs from neoclassical economic science, of the pure market economy, regarding the market as a complex evolutionary process, which brings to attention concepts such as emergence, self-organization, co-evolution and especially “transversality and relatedness” within platforms of industrial interaction ideas. Within this framework, the policy of innovation is closely adapted on a “hands-on” basis to a certain region’s specific needs. Further on, Cooke raises a question regarding the current regional policy of innovation “vertical type thinking, sectorial specialization(...), where clusters match perfectly” [29], [30], [31], which leads to “intelligent specialization” of the EU strategy of region recovery and development and which aims to obtain better convergence results.

According to [29], [30], [31] concepts such as “*relatedness*” and “*transversality*” play an important role in the innovation strategy and policy. The concept of “*relatedness*” contains both variety in the relationship and the “non-relationship” one, for example the varieties of information, knowledge, institutions and organisations and contributes to the re-combination of knowledge in an environment characterized by uncertainty and surprise in which co-

evolution appears. And the concept of transferability, defined as “the process in which knowledge released from an industrial or institutional source is successfully introduced, analyzed and adopted with changes, to facilitate the creation of an innovation in a different industry or another institution” [29], [30], [31], is at the heart of the process of emergency, which refers to different entities cooperating with one another.

Cooke develops some new and important aspects of the regional policy of innovation in a coherent framework. Thus, he:

- Delivers a new framework for the analysis of economic geography, of regional development and of regional innovation;
- Makes the theory of innovation rather than measuring the different problems such as research, science and technology, using the standard variables;
- Explores the nature and rationale of innovation in social, economic and cultural life;
- Compares and contrasts theories of transition and the change to adaptive complex systems and among individuals;
- Explores the spatial dimension rather than the vertical dimension of innovative interaction, through adapting complex systems;
- Reaffirms the importance of regions as a place where innovation takes place in reality and as a point of entry for the analysis.

#### 4. Conclusions

Even though the research on territorial capital, the full blown valuation of the potential of regions, on the start-up culture and the scale-up development ([25], [26]) is at the very outskirts of a proper research theory, the importance of looking further on into these aspects is more than obvious.

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## Turning Forests into Added Value: Romania's Furniture Trade

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### Abstract

*The paper presents the situation of the global furniture market, starting from data provided by UN COMTRADE, as well as the positioning of the Romanian producers and importers. The purpose is to reveal a real positioning based on market share as well as the potential for providing added value products to an increasing global market.*

**Key words:** global furniture market, Romania

**J.E.L. Classification:** L68

### 1. Introduction

The international market of furniture is equally dynamic with growth potential, and stems from a global trend of urbanization, increased attention to environmental impact, preference for open-design, focusing on cultural diversity and manufacturability. New concept of *Internet of Things*, need access to electricity mostly through inductive systems, the continuing trend of *DIY - Do It Yourself*, bending toward collaborative environments, the client has an important input in designing an ideal space for himself, family and / or his company, so their say on the need for constant product innovation in an industry millennial and on processes and production platforms. Consequently an analysis of external market furniture collection will be affected by classifications that capture data more or less of certain niche areas of production.

In the European Union, responsible for about a quarter of global production of furniture, furniture manufacturing industry is seen as crucial to the Union's competitiveness, its economic growth using industries as a factor. The proportion of the European Union but global production of

furniture fell over the past decade, coupled with the regulations on timber production, wood gathering, the impact of this industry on climate change. Among the documents that refer to this issue is "A New EU Forest Strategy" (2013) and "Blueprint for the EU Forest-Based Industries" (F-BI).

Specifics of the furniture market, an industry highly labor intensive production factor and a high fragmentation on small and medium-sized producers, in conjunction with a complex value chain often leads to an impairment of its analysis, that capture accurately items that can determine competitiveness at the micro and macro economics.

Global production of furniture arrived, after a steady increase over the past 10 years at a level of 361 billion euros [1] with approximately 40% of production concentrated in China, which had a spectacular increase during that period, both becoming the leading producer, exporter and consumer of furniture. This growth is supported by an export-oriented production, foreign direct investment (mostly from Hong Kong), the increased competitiveness through low prices of Chinese products, with a well-qualified workforce and cheap, the government policy of promoting industry clusters (over 24 clusters nationwide), and creating strategic alliances with the second largest producer, USA. Note that the level of imports, China is almost a *closed* country, 99% of consumption from domestic production.

More than 80% of production is concentrated in 10 countries: China, USA, Germany, Italy, India, Japan, Poland, Canada, Brazil and France. In this context it should be mentioned items such as sharp increase in production for domestic consumption in countries such as Brazil and India, and investment in production and export of multinational companies in countries such as

Poland, which is reflected in the national statistics but of the latter.

furniture production market is fragmented in terms of producers, only 20% of production being concentrated in 200 companies, randomly distributed and balanced globally.

Global furniture consumption amounts to 347 billion Euro in 2012 [1], with a global average of 67 per year per capita and a high dispersion global coverage rate of consumption by domestic production. The countries where imports are serving more de75% of domestic consumption (Switzerland, Norway), opposite finding himself countries in Asia or South America, which focuses on covering the consumption of domestic production.

It notes several important elements that will be highlighted and analyzes in detail the following: a large part of international trade in furniture is made by medium-distance flows, usually within the same economic regions, except China's exports. It is also extremely obvious trade flow of components of furniture compared to the finished product. China's share of exports has increased steadily in the last decade, the top 10 exporters, along with it, Germany, Italy, Poland, USA, Vietnam, Canada, Malaysia, Sweden and France. From the figure one can observe the impact of the 2007-2009 financial crisis on the evolution of exports of countries at the bottom of the ranking, only that passed without being affected China and Germany. A similar observation can be done on the top 10 importers.

It may be noted that the US, Germany, France, Canada can be found both on the list of main importers and the main exporting. Thus, the role of Germany and France, joined by Italy and Poland, as growth promoters in the European Union is becoming increasingly evident. It noted that about 85% of domestic consumption at EU level is supported by domestic production, with a strong intra-EU trade flows. This is important for an analysis of industrial competitiveness at national and European level as an erosion of that percentage against a backdrop of increased imports from other parts of the world, can generate major negative effects on local producers.

## 2. Global Trends

For efficient use of the potential of producing furniture industry in Romania is relevant Situated on the background of developments in the industry natural development of consumer preferences globally. It is therefore necessary to analyze an image of the future global furniture as the trends reveals. It identifies several development directions, as follows:

### **Furniture small, compact, modular and multifunctional**

Against the background of increased global population, increasing number of urban centers (in 2014 about 54% of the world population living in urban areas [3] as opposed to 29% 60 years ago) increasing population density in urban centers and the decrease in the average size of housing can be seen an increasing tendency to minimize the dimensions of furniture with a multifunctional component and increased storage capacity. The extreme importance here is creativity designers to incorporate in a compact product, often modular, a large number of possible functions. The emergence of the concept of VETA (*very-easy-to-assemble* = very easy to assemble), on background of a consumer preference for an integrated experience of the product, after-sales service quality at least comparable to the product itself, leading into highlighting the need for emphasis on providing platform experience, concentrating here the whole supply chain.

### **Furniture with a low environmental impact, in terms of its entire production chain**

In a questionnaire applied to CEPS (2014) for consumers in the European Union. it was observed that moderate importance is attached to environmental sustainability furniture products, it is considered a third key feature sought by consumers after the product's durability and ease of maintenance. From a certain perspective, the EU and EEA can observe a privileged situated regulations, which translates into a global competitive advantage, namely labeling in terms of environmental impact *ecolabel*.

Consumers increasingly given more attention to the furniture produced with low

CO2 emissions, sustainably produced wood, using recycled materials and is presented as such. A global trend for developed markets is "reinventing" old furniture worn out, new products, giving the consumer the impression of a low environmental impact. Sustainability is not limited to the environment, noticing and leaning toward buying products from companies and state which respects the rights of workers, approximately 47% of European consumers considering this issue relevant (CILS, 2014).

#### **Furniture with a significant innovative technological component**

Another very important trend related to integrating technology into furniture, the inclusion of wireless charging platform furniture equipment (phone, tablet, etc.), the USB ports or audio and video connection ports for increased connectivity directly into furniture and preparing them for new trends in the *Internet of Things* (development of the Internet, where everyday objects have network connectivity, allowing them to send and receive data). Kitchen furniture acquires weighing capacities, recipes projection or assessment of the state of degradation products, while bedroom furniture allows connection with sleep monitoring equipment to collect data on the wellbeing of the user.

#### **Furniture with a significant cultural component**

There is irrelevant inclusion tend to focus design certain elements of cultural, ethnic and local traditions bringing the look and functionality of the furniture. Including among Romanian designers can observe proposal folk-inspired furniture, modern reinterpretation. This trend facilitates the emergence of pockets of consumers still niche preferences collection of furniture with "cultural personality".

#### **The importance of alternative distribution chain for furniture manufacturing industry**

Increasingly more, the consumer dictates the distribution channel in the industry, including the fact that a small number of manufacturers have been successful in creating effective distribution network. In the luxury segment, the producer stores worldwide have almost disappeared, replaced

by concentrated distribution of custom-made furniture by interior designers, facilitated by online catalogs with 3D modeling, allowing adequacy of furniture to the desired space. The Internet is an effective channel for transmission of information from the producer to the consumer, but has a very low rate of effective distribution channel position.

Another trend that is rather the context is increasing attention to intellectual property rights, piracy furniture design is an acute problem for producers and creative capacity.

### **3. Romania in the Global Market**

To maintain congruence with the earlier analysis in terms of imports and exports at a global level, as well as using data from UN COMTRADE, for Romania is used the same classification from the Harmonized Commodity Description and Coding System (HS), to a level of detail of 4 figures.

#### **9401 Seats (other than those of heading 94.02) whether or not convertible into beds, and parts thereof**

As mentioned in the previous chapter, Romania is among the first manufacturers in the world regarding the group 9401, doubling the value of its exports of about 813 million USD in 2010 to 1,687,000 in 2014. In the division by types of products, presented in the following figure, it is apparent overwhelming weight of the components, followed by seats with wooden frames (both upholstered and others), chairs and other car seats. The event also highlighted the growth trend is clear only for sub-groups 9401.61 9401.90 Parts and upholstered wooden chairs, the rest being either slightly increasing or stagnating, except car seats 9401.20 and 9401.30 Swivel seats, which is a pronounced tendency to decrease.

As regards imports from this group, although it is among the most important importers Romania has an increasing level, doubling the period 2010-2014 import volumes from the group 9401 USD 131 million to USD 218 million. The trade balance is positive, the import growth rate is lower than that of exports. And in this case, Romania imports most 9401.90 Party, whose share in the value of imports increased from 44% to 62% during the period mentioned



above.

#### **9403 Other furniture and parts thereof**

9403 offers the opportunity to annually export goods worth about 720 million dollars, slightly down but steady from 2011 (USD 777 million) by 2014 (672 million USD). Nearly three quarters of this amount is represented by wooden furniture (other than offices, kitchens and bedrooms), followed by wood bedroom furniture and parts of furniture. The minor is wooden furniture for kitchens and furniture made of metal (other than office).

It is interesting to note that Romania is both exporter and importer for wooden furniture (other (other than offices, kitchens and bedrooms) and metal furniture (other than office), highlighting the importance of design and consumer preference internal market. The downward trend in exports is but one obvious for all products in this category, although more pronounced for the first category of products (9403.60)

Romania imports 9403 furniture group oscillates around 260 million USD [2]. Since 2012, however, the trend is slightly increasing, reaching in 2014 to more than USD 280 million. It imports mainly wooden furniture (other than offices, kitchens and bedrooms), metal furniture (other than office) and parts. The breakdown is less polarized than in exports, there are several types of products with similar percentages.

#### **9404 Mattress supports; articles of bedding and similar furnishing (for example, mattresses, blankets, duvets, pillows) fitted with springs or stuffed or internally fitted with tow any material cellular rubber or plastics, coated and uncoated**

Romania exported goods in 2014 related to this group amounting to approximately USD 55 million, increasing obvious to the 23 million dollars in 2010.

The most important part is given but exports of goods classified in other categories or sub-group 9404.90, their share in total exports but decreasing from 88% at the beginning of the analysis period to less than 40% in favor of mattresses of various materials . The latter had a very significant increase, as can be seen in the detailed analysis of the following.

Imports are also increasing from \$ 25 million in 2010 to over 48 million USD in 2014, is similarly dominated by goods not classified in other categories. This represents around 50% of imports, with a share down slightly, to 42% in 2014. It produces, exports compared to the situation a castling between types of mattresses, 2nd in imports being found rubber mattresses alveolar (representing the volume of imports rising from 24 to 38%) and 3rd place, mattresses in other materials (with a share decreasing from 17% to 14%).

#### **4. Conclusion**

Romania has a high potential for growth, a steady increase in the global market, a position to defend in the chair section of the market and important national markets in its portfolio. Thus, a focus on improving the turn of wood into furniture, with a high value added at a national level, instead of exporting raw materials is both crucial and relevant in this context.

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## Increasing Global Population – An Actual Issue of World Countries

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### Abstract

*In this century, the world will face the results of the largest population boom in human history. Currently, the world population has exceeded 7.3 billion inhabitants. The demographic factor is not purely natural. It is a social body which owns a certain structure and expresses itself by a number of phenomena such as: birth rate, mortality, longevity etc.*

*The fact is that the uncontrolled growth of global population today has become a real concern of governments in world countries.*

**Key words:** population, birth rate, mortality, nutrition.

**J.E.L. classification:** J1

### 1. Introduction

After the war, the global population issue has become a leitmotif of international meetings, given the close connection between the demographic factor and the prospects of solving certain matters faced by mankind - resources, nutrition, ecological balance, peace and war.

### 2. World Population Issues

From one period of time to another, the pace of population growth has accelerated. It has taken mankind thousands of years to reach one billion (around the year 1800), more than a century to reach two billion and more than 30 years to reach three billion: 1800-1 billion; 1930-2 billion; 1959-3 billion; 1974-4 billion; 1987-5 billion; 1999-6 billion; 2011-7 billion.

A mere glance at the above data shows that the twentieth century was the most "active".

Population growth is generated both by natural (biological) factors and by social-

economic factors. The latter play the most important role. Indeed, birth rate, mortality, longevity ultimately depend on the social and economic environment where people live[1].

On long term, there is a pronounced tendency to reduce mortality rate worldwide, especially in poor countries. Since the rate of mortality has not had significant changes, it can be said that it is the factor that has exerted the strongest influence on population growth in the postwar period. The special role of this factor would not have been possible without a number of improvements in the field of production factors, without the spectacular development of antibiotics manufacturing, accompanied by increased productivity of labour and significant price reduction.

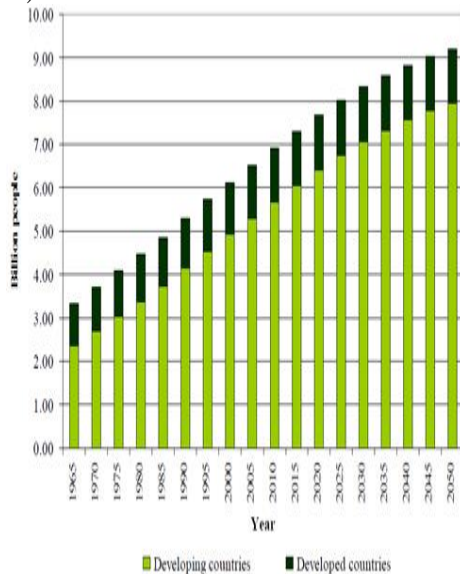
A committee made up of world renowned experts has recently released a warning about the disastrous effects of human population growth[2]. According to the survey, the 7 billion people have already converted 43% of the Earth's land into urban areas and farmland. If, according to estimates, in 2050 the Earth's population reaches 9 billion people, the people will turn 50% percent of the land area of the planet into urban and agricultural land some time in 2025. Population growth will not only lead to unprecedented famine, but also to incalculable losses in activity sectors such as agriculture, fisheries, water resource management or forestry.

The Food and Agricultural Organization (FAO) projects that food and feed production will need to increase by 70 percent by 2050 to meet the world's food needs. Baseline projections of the FAO indicate that the world should be able to meet the food and feed demand in 2050. It can be done with realistic rates of land use, water use and yield increases although there will be challenges along the way. However, researchers at the University of Minnesota project that food demand will double by 2050 [3].

The most famous theory belongs to British mathematician Thomas Malthus who, in 1798 - when the Earth had only one billion inhabitants, calculated that an exponential population growth will lead to famine[4]. It is estimated that the world population will increase in the coming decades to 9 billion people within 40 years and will reach a peak of 9.5 billion in 2075.

It is estimated that world population will increase up to 9 billion people during the coming decades within 40 years and will reach a peak of 9.5 billion in 2075.

Figure 1. World Population (1965 – 2050)



Source:  
[http://www.agmrc.org/renewable\\_energy/renewable\\_energy/more-on-feeding-nine-billion-people-by-2050/](http://www.agmrc.org/renewable_energy/renewable_energy/more-on-feeding-nine-billion-people-by-2050/)

Two billion people plus on the planet during the next 40 years, all needing food, water and shelter, given that climate changes stress these basic human needs, pose serious problems for the countries of the world. The galloping population growth is not accompanied by an equal increase in resources[5], though.

Billions of people will face water shortages, famine, there will be overcrowded urban areas whose living conditions are substandard and also drought, food shortages, urban squalor, migration and resources increasingly close to exhaustion, while the capacity to satisfy needs is trying to keep up with demand.

According to the annual analysis conducted by Internet World Stats, the ranking of countries with the highest population in the world is as follows: China, India, the USA, Indonesia, Brazil, Pakistan, Bangladesh, Nigeria, Russia, Japan[6].

Table 1: Countries with the largest population

	Country	Population (million) - 2013
1.	China	1,357
2.	India	1,252
3.	United States	316
4.	Indonesia	249
5.	Brazil	200
6.	Pakistan	182
7.	Nigeria	173
8.	Bangladesh	156
9.	Russian Federation	143
10.	Japan	127
<b>Total world</b>		<b>7,125</b>

\* -Total population is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship--except for refugees not permanently settled in the country of asylum, who are generally considered part of the population of their country of origin. The values shown are midyear estimates.

Source:  
<http://data.worldbank.org/indicator/SP.POP.TOTL>; <http://wdi.worldbank.org/table/2.1>

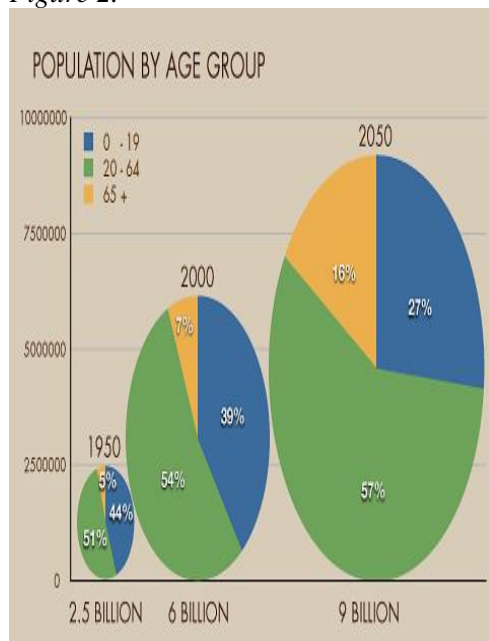
The basis of population growth is represented by poor countries where the population’s education level is not the specific level of the 21<sup>st</sup> century. From a demographic perspective, the developed world lags behind developing nations. According to estimates, by 2050, all developed countries together will contribute only 3% in the overall population growth, whereas the growth in the rest of the world will be a boom.

The phenomenon of demographic growth is particularly intense precisely in the least developed areas of the planet, whereas richer countries have been long facing a decrease of the population, generated by a negative natural increase installed several decades ago. In addition, there is pronounced aging also having been present for a long time, and the two issues “only complicate matters and prevent making the same decisions applicable on a global scale.”

Developed countries already have aged populations as a result of low fertility with longer life expectancy. The trend in these countries is to increase life expectancy and the aging of the world population. In the year 2010, 7.6% of the world population was over 65 years of age, and in 2100, the percentage of third age people will reach 22%.

The number of people aged 65 and over will double as a proportion of the global population to 16% in 2050. By then, there will be more older people than children (aged 0–14 years) in the population for the first time in human history[7].

Figure 2.



Source:

<http://wisdom.unu.edu/en/ageing-societies/>

In Africa alone, the population might expand by 1.1 billion people, i.e. 49% of the total estimated population growth. Thus, the world's population could reach 15 billion people by the end of the century, according to a UN report warning of the impact such a thing has on resources. United Nations believe that the access to contraception would give women the chance to plan their lives better. The population growth rate would be reduced, as well as the pressures related to the lack of food or environmental deterioration.

Whereas such rapid growth rates would moderate hundred years ago either by epidemics or wars, today, experts call for

better birth control policies. The highest exposure will be in the countries of Africa and Asia secondly, among which only China has taken steps to limit the birth rate. And it has worked: by 2100, the UN estimate a decline in China's population by about 30%, down to below one billion inhabitants, compared to 1.3 billion today.

The United States has a growing population due to massive immigration and the fertility of Hispanic immigrants. The UN report has suggested that by 2100, the United States will reach a population of 478 million, 167 million more than today.

Furthermore, the lack of women's power as compared to men is a factor influencing population growth in Africa. Only a quarter of the female population of East Africa, 10% in the Western one and about 7% of the population in Central Africa have access to contraception, compared to 75% of the US female population.

### 3. Conclusions

More people to feed will cause doubling the agricultural production within four decades; the need to increase the amount of consumption water by 30% by 2030; two extra billion people seeking homes in urban centers by mid-century[8].

If one adds the need for energy to support economic growth in post-industrialized, industrialized and new industrializing countries alike, whose demand will double by 2050, one realizes that there is a significant challenge to governments and companies generally speaking.

A new world order will exist as new rich countries emerge with exploitable resources, such as in sunny North Africa, whereas other countries which used to dominate the energy supply in the twentieth century will strive to maintain their welfare and influence.

Current estimates suggest that up to one billion people could be displaced by climate changes over the next 40 years, due to increased natural disasters, drought, sea level rise and conflicts for increasingly scarce resources. Large-scale migration in such areas exert greater pressure on world regions that will turn into temperate regions subsequent to climate changes and could cause new security-related concerns in the more fortunate countries.

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**Section II**  
**Business Economy and Administration**

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**Subsection 2**  
**Marketing – Management**

## Intangible Assets as a Source of Competitiveness

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### Abstract

*Innovation is particularly important for economies that are approaching the frontiers of knowledge, improving long-term living standards. Companies must design and develop cutting-edge products and processes to maintain a competitive advantage. This requires sufficient investment in research and development (R&D), especially by the private sector; presence of scientific research institutions of high quality; extensive collaboration between universities and industry; protection of intellectual property rights.*

**Key words:** intangible assets, competitiveness, innovation, economic growth.

**J.E.L. Clasification:** D8, D83, L2, L21, L25.

### 1. Introduction

The economies of developed countries have been dematerialized, moving from an economic system in which the competitive advantage depended on material and financial resources, managed and controlled companies, to an economic system in which performance is conditioned mainly by intangible assets from the previous activity of companies. The current global economic system tends to become a system of "ideas and technological innovations".[1]

It's known that innovation supports economic growth and competitiveness of developed economies and those under

development. Therefore, it was created in 2007 Global Innovation Index (GII), aimed to determine the ways of measure and evaluate the process of innovation in society, going beyond the traditional ways that lies in the number of scientific articles published and the level costs of research and development.

This study proposes an understanding of the intangible assets' size in terms of process innovation as an important factor of economic progress. The method used to collect data is secondary data analysis. Reliability of consulted sources is given by official reports: Global Competitiveness Report [2], Global Innovation Report [3], National Institute of Statistics, the Organisation for Economic Cooperation and Development (OECD) [4]. We used Spearman correlation coefficient for data analysis because the type of data was measured using ordinal scale.

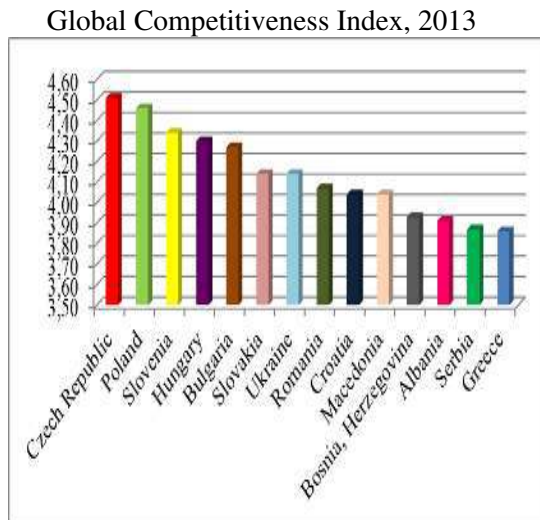
### 2. The competitiveness level of Central and Eastern Europe countries

This study proposes an analysis of the Central and Eastern Europe countries in terms of Global Competitiveness Index, in order to understand the level of competitiveness for each country from the smention region, Romania included.

According to United Nations classification, Central and Eastern Europe includes the following countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Greece, Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia,

Hungary, Ukraine.

Fig. nr. 1 The performance of Central and Eastern Europe countries in terms of competitiveness



Source: Global Competitiveness Report, 2013

The figure above gives us a rank of Central and Eastern Europe countries regarding the score of Global Competitiveness Index in 2013. Czech Republic ranks first (GCI = 4.51), followed by Poland (GCI = 4.46) and Slovenia (GCI = 4.34). Romania ranks eight from the total of fourteen Central and Eastern Europe countries with a 4.07 value of GCI. The last three positions lies to Albania (GCI = 3.91), Serbia (GCI = 3.87) and Greece, the last country with a 3.86 value of GCI.

## 2. Correlation between Innovation and Global Competitiveness Index for Central and Eastern Europe countries

Correlation coefficients highlight interdependencies between competitiveness and various factors of influence, those related to Innovation occupies a place of first importance.

These coefficients have values between -1 and +1. When the coefficient value is close to 0, the connection between the independent indicator (x) and the dependent indicator (y) is reduced; when the result approaches -1, the independent indicator strongly influences in the opposite direction the dependent indicator; when the result approaches +1, the

relation between those two indicators is strong and direct (in the same direction).[5]

Starting from the hypothesis that innovation greatly influences a country's competitiveness, we checked with Spearman correlation coefficient the intensity of this correlation, for countries from our case study, based on data in the table below:

Table no.1 Correlation between GCI and Innovation for Central and Eastern Europe countries:

Country name	GCI, 2013 (y)	GII, 2013 (x)	Rank y	Rank x	d	d <sup>2</sup>
Albania	3,91	3,11	12	13	1	1
Bosnia, Herzegovina	3,93	3,28	11	10	-1	1
Bulgaria	4,27	3,30	5	9	4	15
Croatia	4,04	3,39	9	7	-2	4
Czech Republic	4,51	4,13	1	1	0	0
Grecia	3,86	3,37	14	8	-6	36
Hungary	4,30	3,68	4	3	-1	1
Poland	4,46	3,66	2	4	2	4
România	4,07	3,20	8	11	3	9
Serbia	3,87	2,96	13	14	1	1
Slovakia	4,14	3,50	6	5	-1	1
Slovenia	4,34	4,02	3	2	-1	1
Macedonia	4,04	3,13	10	12	2	4
Ukraine	4,14	3,43	7	6	-1	1

Source: Global Competitiveness Report, 2013

$$6\sum d^2$$

$$Sp = 1 - \frac{6\sum d^2}{n(n^2-1)} = 0,83; \quad d = r_x - r_y, \quad \sum = 79$$

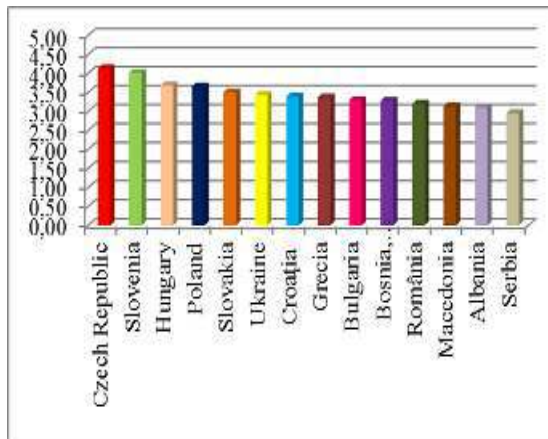
The correlation coefficient value close to 1 shows a direct and strong, but not perfect relation between the innovation process and the competitiveness level of countries from the analyzed region.

## 3. Central and Eastern Europe in terms of Global Innovation Index

We further propose a comparative analysis of Central and Eastern Europe countries, in terms of Global Innovation Index for 2012 years.



Fig. no. 2 Top of Central and Eastern Europe countries after GII value in 2012



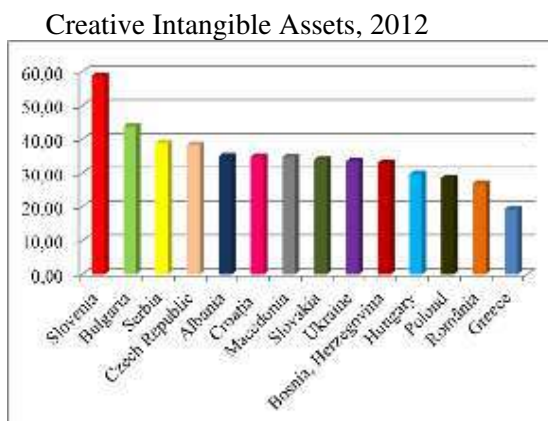
Source: Global Innovation Report, 2012

Czech Republic is the first (GII = 4,13), closely followed by Slovenia (GII= 4,02) and the third position is for Hungary (GII = 3,68). Our country ranks fourteenth with a 3,20 score of GII, followed by Macedonia (GII = 3,13). The last two positions are Albania (GII = 3,11) and Serbia (GII= 2,96).

### 3.1. Positioning Romania in the mentioned region according to Creative Intangible Assets as a result of Innovation

In terms of Intangible Assets as a result of innovation and for a better understanding of countries situation, Romania included, from the mentioned region, we have to do next ranking.

Fig. no. 3 Top Central and Eastern Europe countries in terms of Creative Intangible Assets as a



Source: Global Innovation Report, 2012

Analysing the Creative Intangible Assets in 2012 year, we notice Slovenia leads in Central and Eastern Europe, followed by Bulgaria and Serbia the third position. Romania is situated before the last position, being surpassed by Poland, followed by Greece.

### 3.2. Correlation between Creative Intangible Assets and the performance of Central and Eastern Europe countries by the GDP/capita value

It is known that without research and development, the innovation process does not exist [6]. We propose a correlation between the Creation Results: Creative Intangible Assets and the countries performance in the mentioned region, reflected in the GDP / capita.

Table no. 2 Correlation between Creative Intangible Assets and GDP/capita for the Central and Eastern Europe countries

Country name	Active intangible creative, 2011 (y)	PIB per capita in US \$, 2011 (x)	Rank y	Rank x	d	d <sup>2</sup>
Albania	34,6	3,99	12	3	-9	81
Bosnia, Herzevovina	30,3	4,61	14	10	-4	16
Bulgaria	51,8	7,20	1	12	11	121
Croatia	40,9	14,45	5	1	-4	16
Czech Republic	47,1	20,44	3	5	2	4
Greece	30,5	27,30	13	14	1	1
Hungary	43,2	14,05	4	4	0	0
Poland	36,3	13,54	10	2	-8	64
România	35,4	8,86	11	11	0	0
Serbia	36,5	6,08	9	9	0	0
Slovakia	38,2	17,64	8	7	-1	1
Slovenia	51,4	24,53	2	13	11	121
Macedonia	39,7	5,01	7	6	-1	1
Ukraine	40,6	3,62	6	8	2	4

Source: Global Competitiveness Report, 2013

$$Sp = 1 - \frac{6\sum d^2}{n(n^2-1)} = 0,06; \quad d = rx - ry \quad \sum = 430$$

### 4. Conclusions:

The main conclusion of the current scientific approach is given by Spearman correlation coefficient, which shows us a slower connection, but not nonexistent between Creative Intangible Assets and countries performance from the mentioned

region, in terms of GDP/capita.

Considering these results, we can say that innovation is a long process for both developed and under development economies, innovation results being visible over time.

Innovation can not cure the immediate financial difficulties, but is an important element of sustainable economic growth.

It is obvious that success in innovation is not just a mixture of quantitative elements: the number of researchers, the proceeds of funding, number of patents, etc., but companies and countries that have managed to develop strong innovation processes and adopted qualitative success factors: they developed coherent connections between their strategies and capabilities, creating an environment that supports innovation.

## 5. References:

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## The Corporate Communication and the Entrepreneur. Business Opportunity

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### Abstract

*The work is a study aimed at defining and understanding the concept of corporate management. In recent years, corporations in Central and Eastern Europe had to adapt to a very harsh competition, while facing various problems in the ownership and management structures of corporations. [1], [2], [3] The entrepreneur is "the engine" of economic growth [14, p.23]. The professional level of an imaginary entrepreneur was determined by schools, by the prestigious universities: Winchester school; schools in Paris, Chartres, Orleans, Tours, Loan, Reims, Liege; schools in Köln, Germany, England York and Canterbury, Oxford.[27], [24] The entrepreneurial thinking and spirit have become objects of study in various universities.[24], [15], In our opinion, the treatments listed have "something" in common: they are related to findings and not to something constructive. According to [19, p.104], [4] [5], "the essential characteristic of tangible assets is that they participate in several production cycles, wear out over time and gradually transmit their value on other goods without losing the physical form".*

**Keywords:** communication, business, promotion, company, client.

**JEL Classification:** H83

### 1. Introduction

In our view, these goods, during production processes, do not maintain any physical form, or a numeric value. The undertaking's patrimony is subject to the "attack" of the scientific-technical progress, of the supply and demand in domestic and foreign markets. Bohateru V. [18, p.64] lists the farmland evaluation stages. In this case, the author is right. The agricultural lands are a heritage of both the businesses and of the nation as a whole. They cannot be evaluated by methods similar to the assessment of lathes. Agricultural lands have certain qualitative characteristics, called evaluation marks [20, p.68]. The quality classes, grades of creditworthiness, agricultural land ratings evolve under the impact of technologies. [19, p. 92], [1], [6]

### 2. The relationship between the company and the business environment.

Businesses in Romania were engaged in economic competition with economies of EU member countries. These, in turn, have an impact (not always positive) on the operation viability of national enterprises. [7]

The potential success of the enterprise is determined by the entrepreneur, who is the force "motor" of the enterprise he/she must possess certain professional, psychological, analytic qualities; he/she should have the possibility of calculating, forecasting economic indicators. The works (enterprises) to be executed by the company, under the

impact of demand, of the scientific and technical progress, evolve, change over time. [8] The employees' level of creativity in the enterprise is largely determined by the manager's skill to form an appropriate team, responsible for creating a system of incentives for the qualitative execution of works. The manager's selection of a team depends on the level of training of the specialists in the profile, in the institutions of education, training, internship opportunities of potential employees in other industrial, technologically performant countries. [22]

The economic problems of the enterprises in Romania can and must be solved by equipping practitioners with the theoretical foundations of management theory. [9], [10], [11]

The entrepreneur is obliged by the competition on the market to display original optimism in decision-making processes; be innovative in problem situations; possess knowledge of decision-making in uncertain situations; not be outdated by scientific and technical progress; possess entrepreneurial thinking and spirit; have knowledge acquired in prestigious schools and universities; systemically update his/her managerial methods; be a good analyst in the theory of economic growth. In his/her activities, the entrepreneur uses formalized exposures. [12], [13]

The impairing activities of the enterprises in Romania are generated by the economics of the past. The study examined the functioning of the enterprise in the conditions of globalization; in this context, we should listed and analyze the factors positively and negatively impacting on the company's future operation; highlight the importance of the professional quality of the company manager and of its employees; analyze the flexibility of the geographic location of the company, and the final product structure. [12], [13].

The managers of the companies in Romania shall be initiated into economic behavior in the most difficult situations. The EU flows of goods, capital, labor are free, and create both unfavorable and favorable conditions for enterprise; the manager, depending on his/her training skills, can collaborate with new businesses partners; opportunities arise in certain situations, such

as the merge of the company with other companies; geographic expansion opportunities arise; there are new competitors, new rules, demands of producers, traders; the staff motivation system (at the level of their enterprise) requires company managers to align the system of labor motivation to the EU system (in the case of remuneration below the EU countries, the company may incur a shortage of staff; if he/she needs to attract workforce from the EU, the manager supports a staff remuneration higher than the EU). In this case, the explanation is one: companies that complement each other submit joint effort, organize joint teams of collective intelligence in order to generate new ideas, solutions and proposals.

Romanian businesses are usually preoccupied to solve their economic problems in order to obtain maximum profits. Social, ecological issues remain in the shadows. In those circumstances, scientific investigations are necessary in order to drive the productive potential of the enterprises for solving problems related to education, health and rational use of natural resources. The operation of the company in the EU can and must rely on the social policy promoted by the government. The social policy of the company, in our view, should be based on three pillars: the system of values; governmental power system; productive system and the distribution of goods. The values, including the cultural and scientific ones, influence the power production and distribution of goods. The system of values, in a country, is developed or underdeveloped, depending on the level of their assessments.

For Romania, there are required studies, investigations about the role of the innovation in the economic activities of the enterprise. And here, the manager's innovations help his/her, in improving the operation of every element in the system, improving internal and external connections, improving the structure of final products. [12], It is necessary to highlight the role of technological innovations. New technologies can hinder the domestic and foreign organizational schemes. The implemented innovation activities change, in some way, all the system elements and connections;

some items may disappear from the system, others may occur. Technological innovations can significantly alter the structure of final products; you can create services without precedent, eliminate some products and services. When missing, innovations contribute to the prosperity of some companies and to the bankruptcy of others. [17].

In the economic competition between Romania and the EU member countries, all business activities are focused on reducing all costs. The EU creates conditions for the free movement of labor, capital and technologies. In those circumstances, the Romanian economy has a particular topical management of the company, in the determination of the optimal period of renovation of the productive equipment. They can be replaced by other relatively efficient but much obsolete imported equipment, by mainly new machinery, but which require considerable expenditure. [18]

However, the entrepreneur is the "engine" of economic growth. The professional level of an imaginary entrepreneur was determined by prestigious schools and universities: Winchester school; schools in Paris, Chartres, Orleans, Tours, Loan, Reims, Liege; schools in Köln, Germany, England York and Canterbury, Oxford. [27], [24] The entrepreneurial thinking and spirit have become objects of study in various universities. [14], [15], [19] In our opinion, the treatments listed have "something" in common: they are related to findings and not to something constructive.

The scientific and technical progress, the new forms of work organization, the quality of work, the impact of globalization on the productive activities of enterprises require the need to argue scientifically the uncertain economic future conduct of the undertaking. [14] This paper comes with new approaches and methods to address the problem, complements the already achieved results, and is able to serve as reference for the enterprises in Romania, intellectually engaged in the economic competition with the EU countries.

The degree of the research topic is determined by focusing on doctrine, concepts, principles, developed to date by scholars specializing in developing strategic

management models, for the potential development of the company. [15], [16] The methodological basis used during research, analyzes, elaborations, conclusions, proposals and achievement of results focuses on economic and mathematical methods; the criteria of Wald, Hurvitz, Savage; the maximum verossimilarity, Bayes, Laplace; economists classical and contemporary works: Cantillon R., Felton A., Krugman P., Lucas R., McCollum J., Reinhart C., Say J.B., Sahimi M., Schumpeter J., Soros G. This scientific research was made on the basis of concepts, principles of market economy under Romania's EU accession, as reflected in the work of Romanian economists, including Bărbulescu C., Bănaeu C., Ioniță I., Malița M., Săvoiu G., Zaharia S.E. and others. A special emphasis was placed on the work of cyber methods (Systemic), on the economic-mathematical model; we also found useful the works of several economists work from the Republic of Moldova, including: Blanovschi A., Burlacu N., Catan P., Cotelnic A., Onofrei A., Parmacli D., Timofti E., Stratan A., Șavga L., Țurcanu P. and others.

The complex systems of the economic-financial and organizational interrelations "communicate" with the business environment and with the performance shares. [25], [26]

This maintains the performance levels required by the specific manifestation of entrepreneurship, which take into account the company's communication policy and the business opportunities in the economic field.

The corporate communication or what we call the organizational communication can be regarded as follows:

as a process, it is the transfer of ideas and information and it is achieved through a succession of phenomena that occur between transmitter and receiver;

as a symbolic, graphic whole, it is the verbal and the broadcast item and it plays a crucial role in getting a new image of the company, and a new identity and marketing of its products;

as a feed-back, where the receiver exercise influence on the transmitter, and vice versa; [20]

The productive potential of the enterprise can be determined only in a conditioning

way. The potential of the enterprise depends on a number of exogenous and endogenous factors, including the professional qualities of the entrepreneur. [24]

### **3. The business activities of enterprises in Romania: problems, reflections**

Romania's post-accession to the EU is a time to be tested by the level of efficiency of economic activities and labor productivity. By maintaining the traditional forms of labor organization, of investment, of the final product structure, we risk turning the country into a colony, into an exporter of raw materials and work in the EU. The same, based on our own investigations, we can state the same for Moldova: exports and investments influence very little the economic growth. This is due to the reduced performance of Moldovan exports and especially of the noncompetitive product structure. Half of our exports of food production are ensured, without noticing any evident trends in other specialization branches. The cause of this trend is represented by the poor productive potential of agriculture and domestic industry. [13, p.20]

Romania's accession to the EU is the country's engagement in economic competition with professional economic partners. Romania's economy, under the new conditions, in our view, has become more vulnerable. [27], The priorities created by the EU in solving problems are not always achieved. Consequently, the standard of living, the quality of life bears a high probability of reduction. In economic competition of the EU countries, Romania should exceed the level of efficiency, labor productivity, innovation, and organization etc. of the most developed countries in Europe. [21], [23] This is impossible. The successes and the failures of the undertakings in Romania, are, to a large extent, determined by the managerial skill, the quality of work, the staff employed, the structure of production, the final product, the originality of products, the economic activities, the number of employees, the structure of labor occupation, the turnover of enterprises and of the local units, the gross and net investments of enterprises etc. The

success of the company's operation depends on its ability to incur certain expenditures for scientific research organization, implementation and innovation, financial and material maintenance of experimental structures. [26], [27]

Never had the fate of the economic recovery and development, both in Romania and in Europe, depend so much, like the present, on the development of the SME sector. In the current context, SMEs are the most dynamic factors in the economic development and social inclusion, through their competitiveness and innovation potential and the ability to create and maintain jobs within the society.

The radiography of SMEs, made on 1 January 2012, analyzed in the context of the non-financial economy of Romania, leads to a first important note: in demographic terms, the economically active SMEs had a slight recovery from the previous year, as regards the total number of units. [25]

A detailed analysis reveals positive developments in both size class structures and in the distribution per sectors and in most sub-sectors of the manufacturing industry. Taken together, these findings indicate the sustainability of Romanian SMEs and their latent potential in the face of competitive pressures, on a common internal market and under general economic crisis conditions. One significant aspect in assessing the potential economic viability is the correlation between turnover, number of employees and labor productivity. [11, p.110]

### **4. Organizational communication and the business environment.**

Organizational communication is required to develop new images about the product company. The communication between the company and the business environment involves the availability of the risk capital and of the technical skills of the workforce and also the accessibility of bidders, and the availability of customers and markets. The communication policy of the company involves combining internal organizational communication with external organizational communication. In a general sense, the "economic potential" can be defined as the

totality of natural, human, material, scientific, technological and information resources available to a country, at a time, and expresses its development possibilities. The economic potential factors include the domestic and the foreign means on the territory of that country. [17]

We agree with the authors stating that, "based on the economic potential, its foundation is represented by the production potential and by the opportunities reuniting all branches of the material production sector, their ability to create all material goods" [24, p.57].

Thus, in order to assess the economic potential of the enterprise's development, in post-accession conditions, we should list the factors that determine the production potential of the company, analyze the opinions of the experts in the economic literature on the conduct of productive investments and formulate the criteria that must be "deducted" from the economic interpretations. [22] The decision-making processes must be based on the initial information, on a number of criteria that must guide the company manager.

The company's potential depends, to a certain extent, on the entrepreneur, on the forms of market organization, the quality and originality of final products, market quality, the respective prices of final products, the raw materials, market demand, economic, political and social, economic partners, the performance of the production technologies used in the enterprise, their level in similar businesses, the evolution of productive technologies and the structure of final products, the availability of the data (indicators) on the economic internal and external markets, the level of creativity of company employees. [21], [22]

The implementation, in the last two decades, of competition-based free market relations was accompanied by a slow adjustment to the mechanisms and dynamism of the market economy and a weak motivation for developing trade subjects and consumer cooperatives. [28, p. 394].

In the opinion of some specialists, "studies show that the ways of combining the elements of the economic mechanism in autonomous units by economic levers, such as the contractual relations mechanism, the

financial mechanism and the price mechanism, have not yielded good results in the operation of economic entities". [11, p.10-11]

In another context, the internal drive system, achieved by balancing the interests of diverse elements, allows a radical increase in the organizational and economic potential of the company, in a state of crisis, at the expense of the emergence effect. [21, p.55]

Some researchers consider that an important factor in increasing the economic efficiency of the production potential is represented by the foreign economic relations. The main long-term goal, pursued by state, with their trade policy tools and measures, is the protection of the national economic development by foreign competition. [23, p.60]

Agrarian economists stress that the analysis of the existence and assurance of resources in order to ensure the production of agricultural enterprises of the country - as part of the production potential - should begin with the analysis of land resources - part of the natural production factor. [22, p.13] Others consider that an important role in assessing the economic potential of the company is played by the work potential. [22, p.13]

Evaluating the effectiveness of the economic potential, some economists attest that "from the position of national interests, the enterprise is effective if it produces the final output by consuming material and labor resources that do not exceed the reasonable level"; the position of collective interests – if there is provided by ensuring enlarged reproduction; the position of private interests – if there are created conditions for the material and moral satisfaction of team members [23, p.17].

Therefore, in our opinion, at the micro-economic level, the economic potential of the enterprise would assume, by synthesis, all the possibilities of the economic unit as a management object. The productive potential is part of the economic potential of assuming volume production, the company's capacity to meet a particular workload, and includes a complex of fixed assets, labor resources, technology, energy and information available to the company for its creative activity.

The company can run continuously one and the same work. In this case, its productive potential enterprise corresponds to the entrepreneurship, i.e. to the work performed by the company. The modification of the work done by the company may increase or reduce the business potential. This statement can be interpreted for commercial enterprises. The company specializing in the marketing of certain products creates its respective infrastructure (warehouses, refrigerators, stores, staff, etc).

The factors that have an impact on the productive potential of the company can be grouped into: factors that can be influenced by the company management, called endogenous factors (en); factors that are generated from the outside, called external factors (ex.). Listing all the endogenous and exogenous factors, influencing the productive potential of the company, is problematic. In our opinion, endogenous factors are: possible contractors (en1); those forms of entrepreneurship organization (en2); the methods of calculating endogenous indicators, forecasting endogenous factors (en3); possible structures of final products (en4); the quality and originality of the final products (en5). exogenous factors are: the level of creativity of employees (ex1); the performance of productive technologies generated by scientific and technical progress (ex2); the improvement of the level of internal and external markets (the market is perfect when all participants have reliable information about supply, demand, price, quality, performance) and the existence of monopolists and monopsonists (ex3); internal and external market demand to the company's final products (ex4); economic policies in the country (ex5); economic policies in the countries of the economic partners (ex6); developments in raw material prices, needed by the company (ex7).

## 5. Conclusion

The productive potential of the enterprise is a function of many variables. The increase in the productive potential is identical with only a partial increase in relation to the remaining factors, and it depends on: the quality and originality of the final products;

the quality of markets; price levels in final products, raw materials; market demand; the economic, political and social-economic partners; the performance level of the productive technologies used in the enterprise; the level on similar businesses; productive technological developments, the final product structure; the availability of the data (indicators) on the domestic and foreign economic markets; the level of creativity of company employees. [21]

The company can run continuously one and the same work. In this case, the enterprise corresponds to the productive potential of entrepreneurship, i.e. the work performed by the company. Changing the work done by the company may increase or reduce the business potential.

The potential of the enterprise depends on the specific works carried out by entrepreneurs; on the professional skills of the staff and of the team of employees; on the fairness of the issues raised by the manager; on the scientific-practical potential of the entrepreneur. The potential success of the enterprise is determined by the entrepreneur. He/she is the company's force or "engine" and must possess certain professional analytic qualities; he/she should have the possibility of calculating, forecasting the economic indicators. [26], [27]

The works (within an enterprise) is to be executed by the company, under the impact of demand and of the scientific and technical progress, evolve changes. The employees' level of creativity in the enterprise is largely determined by the manager's skill in forming an appropriate team, responsible for creating a system of incentives for the qualitative execution of works. The manager's selection of the team depends on the level of training of the specialists in the respective profile, in education and training institutions, internship opportunities granted to potential employees, in other industrial and technologically performant countries.

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# The High Performance Working Systems within Romanian Companies

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## Abstract

*The European economical background marked by an intense competition between companies, brings into discussion the importance of high performance working systems. The use of such systems represents an important instrument to achieve the goals of the companies in order to succeed and develop. The high performance working systems are based human resources practices used by a company.*

*This paper aims to analyze the presence of these systems through human resources practices deployed by Romanian companies.*

*The data used are provided by the European Company Survey, the 2013 edition.*

*The analysis could be widened by addressing the correlation some specific human resources practices and the organization’s level of performance.*

**Key words:** high performance working systems, human resources management practices, organizational performance

**J.E.L. classification:** M12, M54

## 1. Introduction

Modern companies use a specific approach toward their personnel. The people within organization are considered valuable resources that need to be developed. This position is opposed to classical one which approached people in terms of costs that needed to be minimized.

The human resources through their skills, involvement and level of performance determine overall evolution and performance of a company.

People are considered as a source of competitive advantage for the company even if this idea has been argued by specialists that issued favorable arguments or contrary ones.

This paper intends to analyze the

influence of human resources management practices over the use of high performance working systems.

The analysis is aimed to establish the level of development of these systems within Romanian companies.

## 2. High performance working systems

Defining the high performance working system (HPWS) generated many debates in specialized literature.

The different approaches on this issue have converged on the idea that such systems are related with the human resources management practices used by a company.

Some specialists considered that high-performance work systems represent a group of separate but interconnected human resource practices that together recruit, select, develop, motivate, and retain employees [1].

Organizations using HPWS make a significant investment in their human resources so that employees are well trained, skilled, and empowered to conduct their jobs [2].

Regarding this concept some authors pointed out that are few important elements that should be clearly identified [3]:

- level of performance;
- work practices;
- systemic effect

The systemic effect was indicated by many researchers that argued that some groups of human resources practices generate improved performances at the company level.

The level of performance was approached on economic criteria [4]. Such systems proved to be successful if benefits generated exceeded the costs involved.

There was researcher that approached the performance issues in relation with both company’s and worker’s results [5].

Defining the work practices as the basic element of high performance work systems

seems to be a more difficult task.

The researchers pointed out different issues regarding such practices. For example, 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 [6].

Another issue discussed in the specialized literature concern the fact 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 [7].

In the case of high-performance work systems the employees are considered as primary source of competitive advantage. Therefore, it will be difficult for others companies to imitate it. The personnel acting under such systems will continuously improve their skills and will generate higher level of performance with a proper motivation.

The high performance work systems are based on groups of human resources practice that will ensure a superior organizational performance.

In the next section of this paper different human resources management practices will be analyzed in order to determine their impact over the results of the Romanian companies.

### 3. The influence of human resources practices on the performances of Romanian companies

The source of dates is represented by the 3<sup>rd</sup> European Company Survey that took place in 2013.

The specialized literature has presented results of different studies that try to explain how human resources management practices enable organizational performance [8]. Evidences suggested that such practices have a strong influence over the company's performance.

Starting from this point of view, based on the result of the 3<sup>rd</sup> European Company Survey, the Romanian companies' case will be analyzed. The practices that are considered in order to present their influence over the organizational performance are [9]:

- recruitment and career developments;

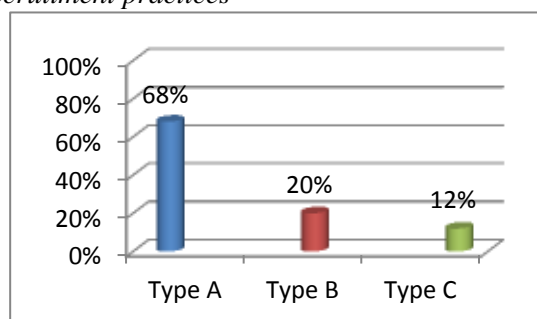
- training;
- working time arrangements;
- variable pay schemes.

The results of the survey concerning recruitment revealed that are three types of companies:

- type A-companies that have stable recruitment policies, that indicates a stable workforce, less difficulties in finding the right people for the jobs offered and very small problems regarding personnel retention;
- type B -companies that have problems in terms of matching skills. In this case many of these companies pointed out problems related with attracting the right skilled employees and retention problems. They have planned to change their recruitment and selection policies;
- type C-a low percentage of the companies indicated the need to reduce their staff and having grater problems related with the finding and retaining the right skilled personnel.

The situation of Romanian companies included in this survey is presentment in the figure below.

Figure 1. Romanian companies and their recruitment practices



Source: [www.eurofound.europa.eu](http://www.eurofound.europa.eu) [10]

The figure shows that the Romanian companies that have participated in this survey are placed mostly in type A of companies. Therefore the major part of them has a stable recruitment and selection polices, encountering lower problems of finding and retaining the right skilled employees.

Based on these findings it can be assumed that such specific practices that leads to a stable workforce generate a positive impact on the level of organizational performance.

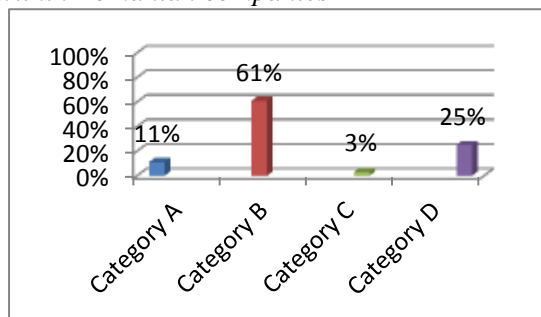
The analysis of training practices within the studied companies pointed out four

categories:

- category A-companies that offer paid time off for training and on-the-job training, but for a limited number of their personnel;
- category B -companies that enable the majority of their staff to participate in both forms of training;
- category C-a low group of companies that provide no form of training;
- category D-another reduced number of companies that are offering only on-the-job training formulas for the majority of their staff.

The approach of training practices within Romanian companies is described in figure 2.

Figure 2. Approach of training practices within Romanian companies



Source: www.eurofound.europa.eu [10]

There are numerous Romanian companies that enable their staff to beneficiate of both types of training. This leads to the conclusion that such an approach has also a positive impact on the company’s performances.

It should be noted that a large percentage (25%) of the companies are allowing their personnel to participate only in on-the-job training programs. This could lead to a future research theme regarding the influence over the quality of training in the case of each type of program.

Working time flexibility practices refer to the possibility that the staff establish a flexible working program, accumulation of overtime and use part-time working formulas. Considering these issues, the companies that have participated to the survey, could be separated into three groups:

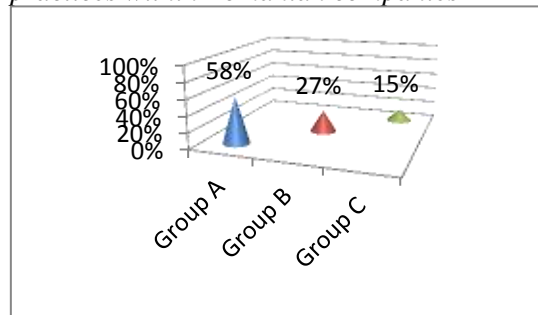
- group A-companies that have a limited allowance of working time flexibility practices;
- group B -companies that enable such practices in a selective manner. For

example, they allow flexi time for a large percentage of their staff, but in the same time have a lower percentage of personnel in part-time system;

- group C- includes companies that allow working time flexibility practices on a larger scale for their employees.

A situation of these specific practices within Romanian companies is presented in figure 3.

Figure 3. Working time flexibility practices within Romanian companies



Source: www.eurofound.europa.eu [10]

The analysis of the results regarding these practices in our country case, reveals the possibility of a lower impact on the company’s level of performance, due to the fact that companies with a limited allowance of this kind of practices are prevalent. We can assume quite a negative influence over the organization’s performance.

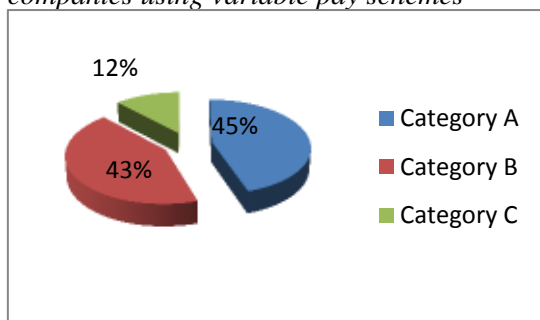
Another set of practices concerns the variable pay schemes used by the companies. They can determine a positive influence over the results of the organization.

Companies participating in the survey were separated into three categories:

- category A-companies that used none or limited variable pay schemes;
- category B -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;
- category C-a low percentage of companies provide different variable pay schemes on a large scale.

The situation of the Romanian companies that use such formulas is presented in the figure below.

Figure 4. Categories of Romanian companies using variable pay schemes



Source: [www.eurofound.europa.eu](http://www.eurofound.europa.eu) [10]

The data analyzed 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 analysis of the human resources practices within the companies studied into ECS 2013 survey reveals a positive influence over the level of performance. In such case we can speak about functional high performance working systems within the studied companies.

In case of Romanian companies it can be noticed a positive effect that proves the existence of such systems within the companies that participated to the survey.

#### 4. Conclusion

The high performance working systems issue was debated on large scale in specialized literature.

One of the converging points of view of different researchers was concerning the positive influence of human resources practice over the organizational performance. Thus, such practices determine a functional high performance working system within a company.

This paper tried to analyze some specific human resources practices used by the Romanian companies, in order to establish whether or not it can be considered a certain degree of use for the high performance working systems.

The analysis of results provided by the ECS 2013 survey revealed interesting situations concerning both the human resources practices used by our companies (participating into survey) and the presence of such systems within them.

The specific practices considered were recruitment related ones, training practices, working time arrangements and variable pay schemes.

The major part of Romanian companies has a stable recruitment and selection policies, encountering lower problems of finding and retaining the right skilled employees. This situation leads to a stable workforce generate a positive impact on the level of organizational performance.

There are numerous Romanian companies that enable their staff to benefit from different types of training. It also can be noted that there are companies that enable only on-the-job training programs. In this case we can consider a positive impact on the company's performances, but at a lower level.

Working time flexibility practices in our country case, reveals the possibility of a lower impact on the company's level of performance.

The analysis of variable pay schemes used by the domestic companies indicates a positive influence on company's performance in a moderate manner.

Considering the results of the analysis on the human resources management practices used by Romanian companies, it can be noticed an overall positive influence on the performance level.

Therefore, the presence of functional high performance working systems within these companies can be considered.

A closer look at human resources practices and their influence over the existence and development of high performance working systems could indicate future research directions.

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## Conceptual Aspects and a New Vision of Competitiveness in Actual Economic Context

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### Abstract

*The intensity of competition on internal and external levels currently influences the countries' competitiveness in all economic sectors. The competitive strategies were also dispute reasons for many economists in the studies undertaken. Thus, in terms of national competitiveness strategies for growth, there are two debates: attractiveness or aggression.*

*Many countries are struggling to recover themselves after one of the most serious economic and financial crises, in 2010 and in conjunction with the project of Europe 2020 agenda that provides three formulas of economic growth in Europe: intelligent, durable and inclusive.*

*The paper refers to the implications of a new EU goal, an addition increase of competitiveness in the next decade on foundation of the global economic crisis that imposed something new, proper to the times and to the challenges of new global competitors.*

**Key words:** competitiveness, growth, innovation

**JEL Classification:** M21, O16

### 1. Introduction

Internationally, competition is exacerbated by economic globalization, technological progress and the access to new technologies, progressive liberalization of international trade; this led to the conclusion that the classical theories of international trade competitiveness of countries, namely the absolute advantage theory developed by

Adam Smith, the theory of the comparative advantage developed by David Ricardo and even the endowment theory with production factors, which belongs to Heckscher-Ohlin-Samuelson (HOS), are no longer able to respond to the current issues. Thus, M. Porter's theory of the competitive advantage [1], as a modern theory of competitiveness, stems from the fact that some countries conduct even larger exports than others, whether they have or not a natural potential that can imbue an absolute advantage. Some countries fail to realize this advantage while others, which do not have such an advantage, are successful.

This triggers the idea that what matters for obtaining the competitive advantage does not lie in the natural resource endowment factors, but in the efforts to invest and form capital; moreover, what matters is not the amount of these efforts, but their quality. Indeed, the countries with weaker equipment inputs can find key sectors to stimulate investment and innovation, investing in infrastructure, R&D, and creating a supply of highly qualified labor force. This task belongs, mainly, to companies, but the government can help achieve them by creating a favorable business environment and an investment climate, in order to encourage companies to specialize and become world leaders.

### 2. Conceptual approaches regarding competitiveness in global context

There is in the literature a wide variety of viewpoints and angles where competitiveness is addressed, and, if we were to conclude several issues, they would be:

- the economic competitiveness expresses a dynamic, complex multifaceted state, with many sources;

- in essence, regarding the competitive companies, the potential competitive advantages have become effective; when numerous competitive national companies operate within an industry or within a relevant market, it is considered that that country is internationally competitive;
- a plurality of economic, social, political factors, which contribute to the welfare of a country; [2]
- a superfluous trade balance and economic growth; [3]
- a high living standard, a low involuntary unemployment level and a superfluous trade balance (European Commission, 1998);
- the ability to sell, the ability to attract, the ability to adapt and the ability to win; [4]
- a superfluous trade balance;
- the evolution of prices, of unit labor costs, high rates of economic growth, success in social and environmental protection; [5,6]
- the sum of performance at the microeconomic level;
- meaningless word in the national economy .[7]

A country is successful in foreign markets either by being aggressive and/or by increasing its attractiveness to foreign investment (World Competitiveness Yearbook, 1998). The competition ensures the availability of quality products and services for the final consumer, a higher degree of innovation, lower prices. [8]

In the global competition for markets, the chances of economic success of a country or of a region are based on the offer specialization and on focusing the development efforts to key fields where there already exists competitive advantages, resources and skills. [9]

The European Union is undergoing one of the most challenging times since its creation, with multiple challenges for policy makers. The European context is different from that of 10 years ago. Excessive budget deficits, with an average well above the EU maximum level, required by the Maastricht criteria, reduce the governments' margin of maneuver in the next decade. Unemployment increased, the population is growing old, the Union is increasingly dependent on energy imports, the immigration challenges the domestic labor market, the natural resources become less accessible; some emerging economies, which are more and more competitive, take

over the new segments of the global market; the world needs global financial rules in order to regulate and supervise the markets, while trade protectionism threatens to narrow the markets. This new global landscape will test not only the Europe 2020 strategy, but also the economic progress in various Member States and, ultimately, the very European social model and the quality of life.

While many countries are struggling to recover themselves after one of the most serious economic and financial crises, in 2010, the EC presented a draft of an EU economic strategy for the next 10 years, in order to replace the current Lisbon Agenda.

### **3. European vision of competitiveness in global economic crisis context**

Highlighting the fundamental vulnerabilities, the global economic crisis has imposed something new, proper to the times and to the challenges of new global competitors led by China and India; therefore, the EU proposes a new strategic goal, an additional increase of competitiveness by 2% in the next decade.

The draft agenda “Europe 2020” envisages 3 major growth formulas:

1. Smart economic growth (strengthening of knowledge, innovation, education and digital society);
2. Sustainable economic growth (increased production efficiency and competitiveness);
3. Inclusive economic growth (increased participation in labor markets, acquisition of new professional skills and poverty reduction).

Each of these formulas will be supported on pillars that will quantify the extent to which the objectives will be achieved. Thus, for:

- Smart Europe: the pillars are medium enterprises, the digital agenda, the innovation level and the education and training level;
- Sustainable Europe: the central pillar is the environmental sustainability;
- Inclusive Europe: the pillars are the labor market including employment rates and the social inclusion [10].

Intelligent Europe aims to measure the extent to which European countries develop themselves due to the economies based on



knowledge and innovation. This is comprised of four pillars that capture different aspects of Europe's ability to develop smart savings: the enterprise environment, the digital agenda, innovative Europe and education and training.

A prerequisite to improving the economic growth prospects and the employment in the EU is the overall improvement of the enterprise environment.

Another key objective is to promote entrepreneurship and facilitate business creation by improving the business environment for start-up businesses. This can be achieved by reducing administrative barriers, reducing distortionary or burdensome taxes, and by the access to capital for new and growing firms. The EU has made a major leap in this area, making it possible to start a business within one week in most EU countries, and facilitating the process through a single window. However, the enterprises' environment varies widely in member countries and much remains to be done in this area.

The Digital Agenda. This dimension measures the extent to which an economy will harness the information and communication technologies (ICT), in order to share knowledge and enhance the productivity of its industries. The countries with companies that aggressively integrate these new technologies into their production processes tend to establish productivity increases, which are more visible than others. This dimension of Europe 2020 provides an excellent opportunity for the exchange of information and experience between stronger or weaker actors on the market.

Innovative Europe. Innovation is critical, especially for those countries that are very close to the border with the technology, as with most EU economies. The companies from these countries should design and develop cutting-edge products and processes in order to maintain a competitive advantage. This progress requires an environment that is conducive to the innovative activity, supported by public and private sectors. Basically, it involves investment in research and development (R&D), especially by the private sector; the presence of scientific research institutions of high quality; extensive collaboration in research between universities and industry

Education and training. Qualitative higher education and training is crucial for the economies that want to move the value chain beyond simple production processes. This pillar measures the employment rates in secondary and tertiary sectors and the quality of the education provided. The training level of the staff is also considered due to the importance of the level of continuous training and the workplace – which is neglected in many economies – in order to ensure the constant upgrading of workers' skills.

Inclusive Europe captures the extent to which each member of the Union can contribute and benefit from the growth and development of Europe. This is surprised by two pillars, one for measuring the labor market and the working conditions and the second – for measuring social inclusion.

The labor market and occupation indicate the ability of an economy to mobilize all human resources in order to contribute to the growth of the company. Labor markets must, therefore, have the flexibility to change workers from an economic activity to another one, quickly and at low costs.

Efficient labor markets must also ensure a clear relationship between the workers' incentives and their efforts to promote meritocracy at the workplace.

Social Inclusion aims at determining the extent to which all members of the society have the opportunity to benefit from their country's economic growth.

Through a single pillar, sustainable Europe measures the possibility of the natural environment to contribute to the overall national competitiveness and preservation of a pollution free environment.

Environmental sustainability. A high quality environment, which is also well managed physically, is important to competitiveness through a variety of channels. The efficient use of energy and of other resources reduces costs and boosts directly the productivity by virtue of a better use of inputs. Moreover, a high quality natural environment supports a healthy workforce, preventing disease and the loss of productivity of the human capital, issues that can be incurred by pollution and by environmental degradation. The environmental degradation can directly reduce the productivity of sectors such as agriculture, which, in turn, decreases the

production and the potential for countries to meet the food needs of the population.

Being also found in the old Lisbon Strategy, these three forms of growth will have, this time, less ambitious and more realistic objectives, which are five in number, setting the minimum thresholds that the states should achieve by 2020:

1. 75 % of the population aged 20-64 should be employed.

2. The "20/20/20" climate/energy targets should be met (including an increase to 30% of emissions reduction if the conditions are right).

3. 3% of the EU's GDP should be invested in R&D.

4. The share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree.

5. 20 million less people should be at risk of poverty.

In 2011, the Member States registered highly varied rhythms regarding the seven pillars and distinctive competitive performance was identified from country to country.

Thus, the analysis made by the World Economic Forum pillars that support Smart Europe divided the 27 EU countries into four categories, according to scores recorded on the four pillars:

1. Northern European countries (Sweden, Norway, Finland) occupy the top three places in the Smart Europe (SMART) category, recording, on the four pillars, the highest growth rates.

2. Western European countries (the Netherlands, Austria, Germany, UK, Luxembourg, Belgium, France, Estonia and Ireland).

3. Southern and Eastern European countries (Slovenia, Portugal, Spain, Czech Republic, Cyprus, Malta, Latvia, Lithuania, Italy, Slovakia, Poland and Hungary).

4. Southeast European countries (Greece, Romania, Bulgaria).

#### 4. Conclusions

The success and specialization of national economies now depend on the competitive national and international market companies, their profile, assimilation of technical progress, access to new technologies,

innovation and less on the existence of natural resources; this is the essence of the concept of competitive advantage and a nation holds a competitive advantage if companies operating in that territory have this advantage.

The European Union is currently experiencing one of the worst periods of its establishment due to rising unemployment, dependency on energy imports, immigration, labor market, inaccessibility of natural resources, phenomena which will affect and even affect several member states; Project Europe 2020 - Building a more competitive Europe provides a new strategic goal - an additional increase competitiveness by 2% in the next decade with three formulas for growth: smart, sustainable and inclusive growth, formulas which be supported by the pillars that will quantify if the proposed objectives will be achieved.

These formulas growth, although included in the old Lisbon Strategy will have lower targets but more realistic 2020: occupancy min. 75%, reduction in carbon dioxide emissions, energy consumption by 20% compared to 1990; R & D investments min. 3%, 40% of young people have higher education alongside the prevention of early school leavers below 10% and the number of people at risk of poverty to fall by 20 million.

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## Strategy: Between Misuse and Abuse of the Label and the Concept

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### Abstract

*The study points out aspects of the use of the term strategy in the present theory of management, with demonstration of undesirable implications arising from inappropriate use. This takes the form of a deterioration of the meaning of the term or its usage is the distorting effect of abusive. Definition of the concept for managerial use emphasizes the inappropriate use of the word. The meaning offered by some authors creates confusion in the definition of other important concepts, due to the illogical and inconsistent links with the original Greek word and concept. Proposed discussion highlights dilemmatic landmarks that could have negative effects on the firm's strategy.*

**Key words:** strategy concept, strategy definition

**J.E.L. classification:** M20

### 1. Introduction

The strategy concept has got something magic about it. However, during the last years involved in the utilization of the term some doubts have appeared, and they are related to the debatable consequences of certain processes which were ascribed to the ”strategy” label. Both the managers and the theoreticians have to focus rather on superficial and formal aspects instead of taking into account the essence of the concept of strategy.

A first surprising aspect related to strategy is represented by the expansion in the utilization of the word in more and more diversified contexts. One can question if its utilization is indeed appropriate or a certain automatism occurs, which is related to the assumption that the use of the “strategy” label is a universal panacea. The diffusion of this word is associated with a pompous

terminology, a fact that in most of the cases has rather confusing effects.

The issues related to the inappropriate use of the words belonging to the “strategy” family are outperformed by the ones generated by the meaning afforded to the named concept. As a matter of fact, the expanding chaos related to the use of word certainly reflects a definition problem. This problem generates, in turn, a deformed perception on its contents. However, the already formed perception feeds the inappropriate use of the word, in order to consequently create a chaotic confusion at the level of defining the connected concepts, proving even more distinguishable features than those related to the dispersion associated with the basic definition.

The consequences related to the inappropriate use of the word and also those associated with its definition are distinguishable at a pragmatic level in different forms, having a rather negative impact both on the economic performance of the organizations, and also on the welfare of the people involved.

### 2. Methodology

Due to the fact that this study means to point out a series of problems related either to the utilization of the concept or to the use of “strategy” label, the literature review will simultaneously highlight the significant elements made up by discrete entries selected from the associated comments.

The discrete entries will consist of situations when the use of the term generates certain question marks associated with the meaning, but also of its association with significant authors involved in management theory. Singular situations can be taken into account, which are then quoted and disseminated in the specialized literature, and also certain situations that designate an

anonymous manifestation by associating it with a common use.

At first, this work will focus both on the use of strategy label and on the utilization of its derivatives. The associated comments will emphasize what the author considers to be a deviation from normality, with a disturbing potential within this field, both in theory and in practice. These comments will accompany similar remarks of renowned names or will relate to implicit positions of certain referential authors. These comments will be defined by reasoning developed in order to point out the anomalies related to the debatable use of the label, and also to a part of the potential consequences.

At the second phase, the discussion will continue by considering certain definitions associated to the concept. A longitudinal perspective will be made obvious, even if the recent history of definitions is surprisingly short. A series of renowned strategic management textbooks will be also taken into account. The underlining will be short, in order to allow the emphasis on an analytical approach on the text and on potential consequences associated to the state of facts developed by the respective definition.

Due to the fact that the tendencies highlighted by the specialized literature are placed in an obvious contradiction with the logic associated with utilization of the named concept, the present study aims at assuming an exploratory direction. This direction aims at blotting out a series of conclusions which are far from the current state of facts related to the field.

The chosen approach is meant to point out both the vocabulary problems related to strategic management, and also a series of dilemmas related to the utilized definitions, as the final effect will consist of the development of a landmark for improving the coherence of the associated theory.

### **3. About the label**

The theory related to company management started to use the word “strategy” during the sixties, the work of Chandler (1962) [1] being considered as a significant landmark of this field. As significance is concerned, the field considered nowadays as belonging to the “strategy” label and referred to the company

oriented theory, represented a century ago for the American school of business a subject called “business policy”. Rumelt (2011) [2] argues rather maliciously that within the named field there were three books but no other works related to company strategies, as at that moment his bookcase was “fat with books about strategy”, and he finally concludes in an ironical manner “plenitude has not brought clarity”!

However, after 1962, the utilization of the word “strategy” has become more and more frequent, in parallel with the development of the theory by taking into account the meaning of the word utilized within the military field. The theory has gradually created its own vocabulary by affording new meaning to certain common terms. To relate a certain term to strategy, sometimes by adding the “strategic” label in order to increase the level of reliability related to its status, seemed to be an act of ennoblement. Terms as mission, objective, benefit, resource, have acquired a special position on the scale specific to the vocabulary related to the new management theory, and if the “strategic” attribute was afforded, one could distinguish the named terms from the common vocabulary.

In 1975 the label “strategic management” becomes official during a conference dedicated to the management of company strategies, Igor Ansoff playing the leading role. Ansoff discusses in a coherent manner the aspects related to strategy in his work “Corporate strategy”, (1965) [3], in order to become the spearhead in the promotion of the autonomy of this direction related to company management during the following years.

Once an attracting point of the discussions involving company strategy had been defined by making the “strategic management” official, as a theory which was independent from general management and from function management (namely functions or production, marketing, finances, and so on) certain works of research, essays, studies, textbooks and other works dedicated to this topic have appeared.

An important role in switching from a reasonable development to an annoying inflation related to the use of this word has been played by the works made available for a large amount of people, which promoted

rather plain reasoning, which was attractively associated with facts, names and situations known from the economy placed in the limelight. The named works, propelled towards the center of the public interest by enthusiastic reviews and opinions, have constituted the background of the inflationist phenomenon related to the strategic vocabulary. In this manner a mania associated to the concept has developed.

The most significant example of this type of promotion is the work of Michael Porter. Porter (1980) [4] develops a launching platform for several collocations such as “competitive advantage” or “generic strategies”, which will generate an important number of discussions evolving around the pros and cons of this matter.

One shouldn't leave out the prominent role of the economic press in the amplification of the inflation involving the word strategy and the connected terminology. Rumelt (2011) [2] argues that the word “strategy” is used so often, that it has become a verbal tic.

The inflation is however supported by the adjective “strategic”. The last three decades denote an expansion both of elements to which the attribute “strategic” is associated, and also of the list of activities and processes which are “strategic” or are emphatically labeled as “strategies”.

At the level of current organization management, one can ascertain that the strategy refers to any structure or process oriented segments of the organization. This type of reference obviously belongs to this inflationist tendency. At first the functions of the organization were brought to discussion and thus production, human resources, financial and marketing strategies appeared. Then the reduction of the entity considered by the strategy has become more and more prominent. From human resources strategies the focus moved to wage strategies, then to recompense strategies, to strategies for bonus providing on the credit cards, according to the imagination of various authors. The well-known marketing textbook of Kotler (1997) [5] offers the topic related directory almost two pages of terms of the type “strategy of...”.

For instance the collocation “plan of...” is no longer used and instead “strategies of...” is taken into account. If some time ago a

discount was announced, which represented a reduction in the prices, nowadays one says “low-price strategy”.

The tendency characterized by the reduction and the vulgarization of the entity, and also of the process segment to which strategy is afforded seems to resiliently continue, in spite of each and any kind of logic. One can easily infer that a consequence of this excess could be that each person involved or responsible with this kind of strategy begins to consider himself the “general”/strategist of his organization, a fact that obviously bears on the normal hierarchic relation.

The inflation in the utilization of the “strategic” attribute becomes more interesting as the word is usually used as an adjective. The number of elements labeled as “strategic” has exponentially developed as the amenity of the term has improved (due to a simple definition!) and as the consideration for those involved in the so-called strategic activities has increased.

For certain management concepts, for instance decision, position, objective or plan, the association of the “strategic” attribute could be motivated at first, even if after a more thorough content analysis this label proves to be merely abusive.

#### **4. About the definition**

Colin Gray, an expert on strategy, argues that the concepts “strategy” and “strategic” are sometimes questioned and, in most of the cases are used in a wrong manner [6]. In other words and using a close-up view, the problems related to the inappropriate utilization of the terms belonging to the “strategy” family are enhanced by those generated by the concept definition. The confusion created is maintained by the inappropriate use of the word, in order to create chaos at the level of defining the connected concepts.

The theoreticians underline the “eclecticism” reflected by the definitions. It becomes obvious that maintaining this situation is profitable for a certain category of theoreticians.

The studies that disclose the chaotic state of facts prove to be lucrative for theoreticians and they support the divergent tendencies of the field. It becomes easily predictable that

the evolution of strategy definition belongs to this line of thought, however harmful to companies this line of thought may prove to be.

After 1960, with the diffusion of the concept utilization in the company management, the need for a steadfast definition emerged. A dictionary definition had already been developed referring the term to the military field, but the named definition had not been yet adapted to the field of business. A definition of concept related to game theory also existed, as it was developed after 1940.

According to the first type of definition, offered by Merriam – Webster, strategy is (1): the science and art of employing the political, economic, psychological, and military forces of a nation or group of nations to afford the maximum support to adopted policies in peace or war, and (2): the science and art of military command exercised to meet the enemy in combat under advantageous conditions. If this definition was adapted by replacing the terms related to the military field by the ones involved in the business field, it could be considered as acceptable.

The Mathematics definition provided by von Neumann and Morgenstern (1974:79) [7] according to which strategy is “a complete plan, a plan that specifies which options will have [the player] at all times possible” is indeed synthetic, brief, concrete and clear.

The shift of focus towards the company after 1960, in what its behavior on the long term is concerned, has created the conditions for the emergence of a variety of strategy definitions. They represent the so-called author definitions. Most of them stated in an overt manner the reference to the profit oriented organization, the so-called firm, or this direction could be inferred from the context.

Between 1960 and 1985, the strategy is defined by authors according to what seemed to be more significant to highlight as “availability” for a thematic work (see, for instance Porter’s definition (1985)).

Strategy could be defined as

- ”the determination of the long –run goals and objectives of an enterprise and the adoption of courses of action and the allocation of resource necessary for carrying out these goals! [1]

- ”a pattern in a stream of decisions” [8]
- ”the long term direction of an organization” [9]
- ”the theory about how to gain competitive advantage” [10]
- ”the coordinated means by which an organization pursues its goals and objectives” [11]
- ”forms a comprehensive master plan that state show the corporation will achieve its mission and objectives” [12].

A short contents analysis shows that most of the considered definitions draw on the terms “plan” and “objective” in order to acquire an explanation, as these terms are referred to firm or enterprise in association with significant features for which qualifiers such as “unitary”, “coherent”, and “whole” are used. A notable exception would be Porter’s definition: he turns the concept into an abstract one by replacing the term “plan” with a connotative term, namely ”way” which in fact makes obvious, due to its ambiguousness, the idiosyncratic concept of the renowned author, namely the “competitive advantage”.

The lack of an obvious common denominator of definitions has triggered the emergence of certain approaches reflecting rather what managers assume, due to intuition or expertise, than elements of normative approach grounded on tradition, especially from the military field.

Mintzberg (1987) [13] introduces the fashion of both ascertainment-oriented and so-called eclectic approaches. He promotes five definitions of strategy, identified due to the synthesis of theoretical approaches of the day, which reflect in turn the practice of organizations. The strategy *may be* (1) a plan, (2) a ploy, (3) a pattern, (4) a position, (5) a perspective. The definition is known under the label “5P for strategy”.

Despite of a significant number of dilemmas and major problems of logic, involving explanations related to 5P concerning various other cases belonging to this category, the Mintzberg approach has gained many supporters. Even if they draw to his ideas, many explanations developed by other authors seem to be more coherent and consistent than the ones Mintzberg proposed. For instance Dufour (1996) [14] explains the named definitions by adding new specifications. As the idea of different

coexisting definitions is deemed as viable, the named author, in a mere contradiction with Mintzberg, considers that definitions show significant differences related to organization definition, manager involvement and the manner of developing strategy.

On the same line of a thorough discussion of the concept, Hafsi and Toulouse (1996) [15] afford a hundred of pages to the discussion of various aspects associated to strategy definition in a synthesis of 600 pages dedicated to “organization strategy”.

After 1990, one can distinguish the emergence of a group of theoreticians among which are those already mentioned, who assume the idea of a set of definitions related to strategy. The consequences involved in the dispersion of discussion on pragmatic solutions for this issue are easy to find.

There are also authors who promote a position able to “integrate” these approaches. For instance, the authors of the bestselling strategic management course in Europe, namely Johnson, Wittightton and Scholes (2011) [9] provide an integrative definition of strategy: “is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations” and also an approach which follows Mintzberg’s pattern.

The integrative definition states (the italics mark the authors’ original underlining) that

In parallel, in the form of an appendix, made formal under the title “Commentary: The Strategy Lenses” the authors assume that strategy can be “seen” according to the “lenses” used in the approach. They argue that strategy may be discussed in a different manner, by using one of the following “lenses”: “design lens”, “expertise lens”, or “idea lens”, as “discourse lens” appear in a special position, similar to Mintzberg’s “pattern”.

The fact that strategy definition represents an obvious weak point of current theory involving strategic management is highlighted by many authors, those who distinguished themselves by laconic or ambiguous definitions included, such as Porter. Porter (1996) [16] explains what strategy represents on dozens of pages, and

he starts by pointing out that “strategy does not represent organizational effectiveness”. Even if he uses a series of modern ingredients such as synergy, constant development, and so on, in the manner of his works relying on discrete examples from the American economy or referred to it, he doesn’t acquire the expected clarification or decantation of the topic.

The problem of strategy definition is addressed in an entire work by Whittington (1993) [17]. His manner of solving the problem resembles to severing the Gordian knot, as this problem relates to several question marks concerning the opportunity of the named definition. The covert conclusion of the author is that even if one can discuss the matters of strategy and strategic management, a definition of strategy doesn’t become necessary.

Allaire and Fărșirotu (1998) [18] avoid stating a working definition of strategy, as some of the named authors do, but however they generate a set of connected definitions. They are then used in a coherent manner with reference to an organization belonging to company type, assuming that the maximization of its economic value is taken into account.

On the other hand, as in real life, the over-regulation of a phenomenon can per a contrario bring chaos as an unwanted effect against which initial rule had been created [19], same applies when it comes to mere defining a concept that is applicable into many ways by too many users.

Finally, the list of definitions can be expanded by a significant number of other examples. The associated explanations, as the reasoning able to be built on their basis, may be added to the existing ones, a fact that implicitly proves that both the dispersion phenomenon and the chaos effect remain real.

## 5. Conclusions

This study points out an obvious negative state of facts associated to the “strategy” concept, which was translated from the original military field into the firm management field or, in a more exact manner, into the field of economic behavior involving a certain segment of organizations, namely the firms. There still are utilization



problems in what this word is concerned, and also related to the concept.

This state of facts is characterized by the excessive and useless utilization of the “strategy” label and of the “strategic” attribute in an increasing number of situations and for an expanding amount of elements associated to the company. The reactions against this tendency are made available in explicit manner by certain authors, as others covertly attempt a narrowing of this phenomenon, as the tide created by the indiscriminate use of the terms seems unstoppable.

Even if the area of strategic management seems to refine by time, the definition of the basic concept seems to stray from this overall direction. Not only that a certain convergence point of definitions is far from being made available, but also the number of definitions deemed by their own authors as being only “operational” is in expansion.

Turning this concept to its source, as utilization and definition are concerned, seems to move further away as each new textbook or article related to strategic management is issued.

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## The Gemba Walk – A Tool For Management and Leadership

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### Abstract

*The continuously growing demand that we face in today's global business world, demands ongoing peak performances. The future success of organization depends on the extent to which we are successful at adapting to rapidly-advancing changes in the market, without overlooking the values toward which his business is oriented. To provide the best power management solutions for global customers, it is very important to understand them and create offerings that meet their safety, reliability, efficiency and sustainability needs. The paper presents a continuous improvement strategy, and aiming to improve manufacturing in organization. The 5S and Gemba walk method have immediate and significant influence on organization activity*

**Keywords:** quality, corporate culture, environment, Gemba Walk, 5S

**JEL:** M11, M21

### 1. Introduction

A management technique known as “**The Gemba Walk**” is about getting managers and leadership out of their offices and into the workplace.

A Gemba walk is a good way for managers and leaders to stay in touch with everything that goes on in the workplace.

Gemba Walk mean [1]:

- See what is happening;
- Instill discipline;
- A chance to talk with employees, to hear what problems are not getting solved;
- A chance to quality and safety;
- Connect team goals with the organizations strategy.

Management of technology is crucial for all of us. It involves dealing with technical

issues across a broad spectrum of functional areas.

The job of a manager is to manage and one can not manage if they are not engaged in the work and with the people who do the work.

Technology is forcing organizations to become more competitive at every instance there are innovations taking place [2].

Recent innovations in the form of total quality management, reengineering work process, flexible manufacturing system have one thing in common serving the customer well thought improved operational efficiency

Organizations deliver competitive, distinctive value for customers by:

- reducing their energy consumption, assuring continuity of power availability and ensuring their safe use of energy
- offering superior application insights
- providing tailored product and service offerings
- applying world-class sales skills.
- delivering best in class quality and operational excellence

It is, in fact, an irrevocable obligation to act in accordance with only the highest ethical standards and rules of conduct.

Process Management is the focal point for key work processes, relating to their identification and management.

This includes:

- linkage to customers, suppliers, partners and collaborators and a focus on value creation for all key stakeholders;
- operational performance;
- cycle time;
- evaluation, continuous improvement, organizational learning.

Agility, cost reduction, and cycle time reduction are increasingly important in all aspects of process management.

Agility refers to the ability to adapt quickly, flexibly, and effectively to changing requirements, meaning rapid change from

one product to another, rapid response to changing demands, and the ability to produce a wide range of high-volume products.

Flexibility demands special strategies, such as implementing flexible manufacturing designs, sharing components, sharing manufacturing lines, or providing specialized training.

The Umbrella Brand can be define to be the mother brand which is not usually a specific model because the industry is in continuous development and so are the tempers of consumers with new demands and needs but both consumer and producer demand more and better quality [3].

For Quality Management continuous improvement is a normal situation along life cycle of product and organization management.

Kaizen means improvement without spending much money, involving everyone from managers to employees and using much common sense.

The keys of Kaizen approach are [4]:

- house keeping (5S);
- waste elimination;
- standardization.

Kaizen Umbrella it is an out-going and never-ending improvement process for organization management (Figure 1).

Figura 1. Data base elements of Kaizen umbrella



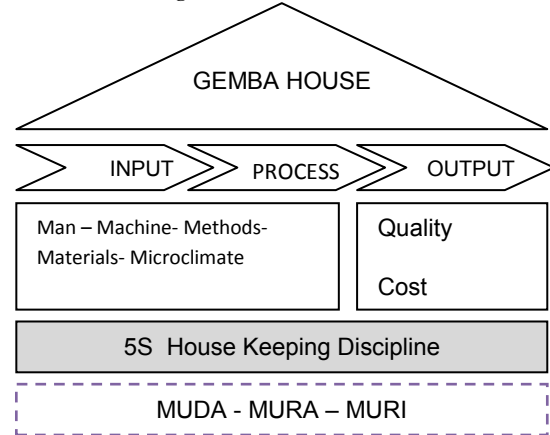
Sursa: By the author

The sustainability of gemba management is a function of full engagement in continuous improvement activity over time (Figure 2).

The foundation of Gemba house it is represented by the 5S : Seiri-sort, Seiton-set

in order, Seiso-shiny clean, Seiketsu-standardized cleanup, Shitsuke-sustain, discipline.

Figure 2. Gemba house



## 2. Case study

The paper present a case study conducted in an enterprise from manufacturing industry which recently develop a new department for recycling and reuse of cars equipment and components [5], [6].

The paper chronicles the design and application of a process innovation framework in the context of the Gemba-Kaizen approach (Gemba Walk).

In total, four methods were used to gather data:

- direct observation;
- participative observation;
- documentary analysis;
- semi-structured interviews.

By walking through the departments, talking with people, observing the work and the workplace, it was possible to collect the data and to apply the 5S audit form.

This article is a basic introduction and overview for each S of 5S method steps, and followed by a short evaluation of walking evaluation sequence.

The ordering and standardization and all changes are necessary for the system may be regarded as a project presented in Table 1. Below the article cover each stage in more depth. A Connect organization strategy goals with Gemba walk example it is presented in Figure 3.

Table 1. 5S Routine Audit Form

Scoring Legend	Green	Yellow	Red	If item is not applicable to the area, score N/A and do not include in the final total	# of Problems	5	3-4	2	1	0	
	>=70%	50%-69%	<=49%		Score	1	2	3	4	5	
Category	Item				N/A						
SORT	Distinguish between what is needed and not needed										
	Are unneeded equipment, tools, furniture, etc. present in the area?									x	
	Are any Red Tagged items more than 3 weeks old?							x			
	Are personal belongings properly stored?						x				
SET-IN-ORDER	A place for everything and everything in its place										
	Are aisle/walk ways and workstations clearly marked and identified?							x			
	Are jigs, fixtures, tools, equipment, & inventory properly identified and in their correct locations?						x				
	Are items put away after use?								x		
SHINE	Cleaning and looking for ways to keep the workplace clean/organized										
	Are cleaning materials easily accessible?						x				
	Are equipment and work station kept clean and free of oil, grease and debris?					x					
	Are designated walkways/stairs free of dirt, oil, grease and dust?							x			
STANDARDIZE	Maintain and monitor the first three categories										
	Are display boards used, organized, current and tidy?						x				
	Are employees dressed appropriately and prepared?					x					
	Have specific cleaning tasks been assigned?							x			
SUSTAIN	Stick to the rules										
	Is the 5S program discussed at Key Indicator/Crew Meetings?					x					
	Are the tools in place to sustain the 5S program?						x				
	Overall, is the area maintaining 5S rules and disciplines?							x			
					<b>TOTAL</b>		<b>55</b>				
					<b>% SCORE</b>		<b>61%</b>				

Source: By the author

Figure 3. Gemba walk before and after implementation of 5S



Source: By the author

### 3. Results

The application of 5S rules is the first step to continuous quality improvement, towards discovery of nonconformities, cleaning, ordering and seize malfunctioning and defects.

The final results are present in Table 2.

Table 2. 5S Audit

Category	Score
Sort	9
Straighten	10
Shine	10
Standardize	10
Sustain	6
Total Points	55
5S Score	61 %

Source: By the author

For Sort, Shine and Standardize the results have a maximum 10 value, a well structure quality road measure in organization with positive impact into managerial activity [7].

The final total points was 45 score from 55 a score of 61 % for 5S method.

The final results like in Table 1, belongs on the yellow level of (50-69%) a situation which needs some improvements:

For S1=Sort, the results was 9, a signal for manager to implement some future solution to improve personal staff stored problems.

The S5= sustain obtain a 6 score, a low value with direct information's about organization problems (Figure 4).

There are problems not resolved yet, because of weakly communication and information between staff and organization departments.

Also another weakly point was discipline and maintenance of 5S rules.

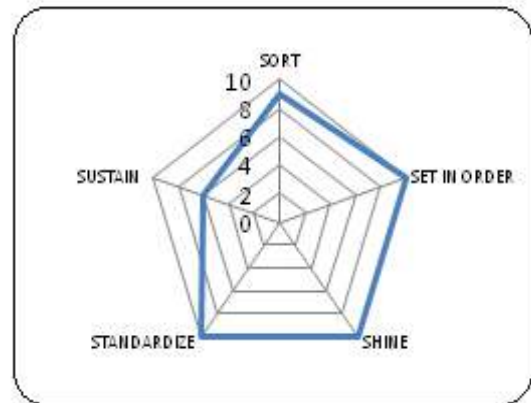
This seems to be hard followed for department staff and employees.

By working together and recognizing that entire staff have a significant role in the

safety of co-workers, a new S it was necessary to be evaluated ,

The new S, was Safety Policy= 6S which will be necessary for a well harmonization of organization with OHSAS 18000 standards, healthy, safety, no polluted.

Figure 4 .Spider diagram for 5S



Source: By the author

Principles assist the staff in organization progress toward eliminating injuries and illnesses in their workplace.

Adhering to this new S, Safety Pillar requires each of personnel, to be responsible and accountable for recognizing and correcting risk behavior or unsafe conditions.

A new provocation for Quality arised because of new trends in technology and environmental protection.

At this stage organization is thinking to the re-engineering which is starts from existing system to rebuild this system with rethink and re-design.

In this research, re-design has different approaches in the product and organization activity.

These are used for process to maintain and remake the products..

Remake a product has many benefits like lower cost, lower risk, business rules revelation, improvement of documentation and quality, increment development of product [8]..

Key work processes include business processes that are considered important to organizational success and growth and relate to the organization's strategic objectives and critical success factors.

Key business processes include:

- processes for innovation;

- technology acquisition;
- information and knowledge management;
- supply chain management;
- project and product management.

Key work processes also include those that support daily operations and product and service delivery but are not designed in detail with the products.

It is a reflection of company's firmly-anchored core values and attitudes toward other persons.

### **3.1. A value-based Corporate Culture**

Quality is both a task and a mindset that each organization pursue every day.

- It is a process of continual improvement that results in:
- Improved value of product and service;
- Increased customer satisfaction;
- Increased customer loyalty;
- Reduced warranty repair costs;
- Reduced cost of redundant or wasteful processes.

The Quality Policy is implemented through the adherence to and certification in the quality standards set forth in international quality management systems [9]:

**Sustainable Business** to minimize the impact of operations and products on the environment.

**Employees** to create and protect the safety and health of employees.

**Business Integration**, organization considers stakeholder expectations in his decision-making process.

**Compliance** organization requirements consistent on Ethics and Compliance, work to create a “zero incident mindset” and to continuously improve organization performance through the implementation of management system standard.

**Customers, Suppliers and Contractors** excellence is everyone’s responsibility, organization is partner with his customers, suppliers and contractors to create mutual value.

#### **Community and Government**

Organization is committed to producing products in safe workplaces that are environmentally responsible, participate in and contribute to local initiatives that improve the quality of life in the communities live.

Through a clear structural and workflow organization, management ensures that the quality management procedural requirements starting from the time of order to the time of delivery.

Planning and pursuit of quality management activities for new products or manufacturing methods, in order to ensure that all quality requirements have been fulfilled, and that any potential faults are avoided during the manufacturing processes.

- Preparation of a concept on preventive measures against possible product defects.
- Identification and documentation of quality problems in products.
- Initiation, recommendation and/ or determination of solutions to problems.
- Control of the implementation of the established solutions to problems.

Prohibition of further processing or delivery of products and/ or optimization of the assembly of defective units, until the identified error or the unsatisfactory state have been rectified.

Company Management has delegated the following activities [10]:

- Control of adherence to statutory guidelines.
- Coordination and implementation of improvements and verification of their effectiveness.
- Creating awareness in all employees of active support of the environment and occupational safety.
- Support for the evaluation of the effects of new products and processes.
- Preventive measures against breakdowns.

## **4. Conclusion**

This paper proposes a process innovation framework using the Gemba-Kaizen approach.

The development, refinement and implementation of a process innovation framework in the context of the Gemba-Kaizen approach has been achieved.

Consequently, as a result of the application, a conceptual framework was established, based on the results of comparing theory and fieldwork: this provides a good practice into the relationship of the Gemba-Kaizen approach with other improvement methodologies, known as

Process Redesign, in the organisation analysed.

The paper contributes to the limited existing literature on the Gemba-Kaizen system and subsequently disseminates this information in order to provide impetus, guidance and support towards increasing the development of companies and manufacturing sector towards world-class manufacturing performance.

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## The Creation of New Businesses in Romania

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### Abstract

*Creating new businesses is a key element in the process of economic development and growth because: there is a positive relationship between the development rate of a country or region and its rate of entrepreneurial activity; it contributes to the economic growth by generating employment and the development of innovations.*

*The data provided by the National Institute of Statistics and Trade Register prefigures worrying trends on the creation rate of new enterprises in Romania concerning the number of suspensions, dissolutions, company cancellation from the Trade Register. The dynamics is fluctuating displaying positive trends.*

*The major challenge in the current period is the stimulation of entrepreneurship and addressing obstacles to the development of entrepreneurship in Europe through simpler procedures for new businesses and the improvement of access to funding.*

**Keywords:** new businesses, entrepreneurship, business demography, innovation.

**J.E.L. classification.:** M13, M21, O31.

### 1. Introduction

In this paper, following a process of investigation of the literature on the creation of new businesses, we analyzed the demographic of businesses in Romania by processing statistical data from the Trade Register regarding the situation of registrations for individuals and businesses, as well as the situation concerning suspensions, dissolutions and the removals from the Trade Register.

The study on the creation of new businesses in Romania provides us with

information about the entrepreneurship initiatives embodied in startups and mirrors the general impression of the Romanian business environment.

### 2. Literature review

The new businesses, particularly SMEs are the most important source of new jobs: they create over 4 million of new jobs across Europe each year. To boost economic development, the growth and the employment across the continent, Europe needs more entrepreneurs [3].

Great classic thinkers like R. Cantillon (1755) [2], J.B. Say (1855) [11] found that the developer is the main figure in economy and in the conception of J. Schumpeter (1975) [12] he is a leader and innovator. The task of the entrepreneur is to decide which objective must be targeted and not to decide on how this should be done.

The researchers and experts in the field of entrepreneurship [6, 7, 13, 14] have shown through numerous studies that the creation of new businesses is a key element in the development process and economic growth.

The new companies create jobs and contribute to the development, implementation and propagation of innovations thus positively impacting economic growth in general [5].

Internationally, entrepreneurship is widely recognized as a generator of wealth in society and a decisive factor for economic growth and job creation. Supporting entrepreneurship has become a priority in recent years and is seen as a solution to the crisis and stopping the alarming rate of unemployment [8].

The level and nature of entrepreneurship varies greatly among the Member States of the European Union: some countries with higher levels of entrepreneurship recorded fewer successes than others in terms of support for new and small businesses [3].



The globalization and the world crisis of recent years have favored a series of structural changes deeply felt in the field of creating new businesses in Romania, so that the total number of start-ups registered in the Trade Register from 2008-2014 had fluctuated with a slight recovery in the year 2011. After 2011 the new start-ups experienced a downward trend.

### 3. Material and methods

This study is the result of a process of critical, interpretative and comparative investigation of studies developed at national level concerning the researched topic. In this analysis statistical, domestic and international databases were utilized.

### 4. Results and discussions

In national statistics, the new businesses are usually treated as SMEs while in other cases a newly created business can originate in an existing business which went through a restructuring or privatization (National Institute of Statistics, the Statistical Business Register). There is also the term "new creation" and concerns the inclusion of the company in the Statistical business register or the registration at the National Trade Register Office [10].

The statistical data from the Trade Register concerning the registration of individuals and businesses as well as suspension, dissolution and canceling from the Trade Register mirrors the demographics of businesses in Romania.

Thus, in terms of registration dynamics during 2008-2014 the situation is as follows:

*Table 1. Dynamics of business registration during 2008-2014*

	Year	Registrations
1	2008	144239
2	2009	111832
3	2010	119048
4	2011	132069
5	2012	125603
6	2013	124816
7	2014	101627

Source: The National Trade Register Office

The total number of start-ups registered in

the Trade Register during 2008-2014 had a oscillating evolution with a slight recovery in 2011. From a peak of 144239 registrations in 2008, amid the global financial crisis that also impacted our country, the number of start-ups has declined significantly in 2009 to 111832. After the year 2011 the newly created businesses experienced a downward trend reaching in 2014 a total of 101627 of newly established companies.

The suspensions of activity are shown in the following table:

*Table 2. Dynamics of suspensions of activity during 2008-2014*

No.	Year	Suspensions
1	2008	12019
2	2009	134441
3	2010	66428
4	2011	21221
5	2012	24078
6	2013	22079
7	2014	15788

Source: The National Trade Register Office

The activity of the companies was seriously affected by the economic crisis so that in 2009 a large number of companies (134441) were forced to suspend their activity. Thereafter, the trend was decreasing reaching in 2014 a total number of 15788 companies.

*Table 3. Dynamics of company dissolution during 2008-2014*

No.	Year	Dissolution
1	2008	3762
2	2009	30105
3	2010	7508
4	2011	11660
5	2012	22500
6	2013	23208
7	2014	18336

Source: The National Trade Register Office

The number of businesses that have interrupted their activity during 2008-2014 reaches in 2009 a maximum of 30105 until their number decreased in 2014 until it reached the figure 18336.

After the dissolution stage, the erasing marks the cessation of use of the full capacity

of a company. We find that most companies were erased from the Trade Register in the year 2010, namely 186144 companies with a fluctuating evolution reaching in 2014 a total of 78483 erased companies.

*Table 4. The dynamics of company erasing during 2008-2014*

No.	Year	Erasing
1	2008	17676
2	2009	43713
3	2010	186144
4	2011	73244
5	2012	71746
6	2013	80786
7	2014	76483

Source: The National Trade Register Office

The above statistical data foreshadow worrying trends concerning the creation rate of new businesses in Romania in terms of the number of suspensions, dissolutions, erasing from the Trade Register. The trend thereof is fluctuating with positive trends.

A more complete picture of the Romanian business environment is shown by an inquiry of the National Institute of Statistics concerning new businesses and the entrepreneur profiles during 1995-2011 [9].

According to this study, the number of newly created businesses mirrors the following evolution:

*Table 5. Number of newly created businesses*

Period	Number of businesses	Period	Number of businesses

*Table 6. Number of newly created businesses by development region*

No.	Year	NE	SE	S	SV	V	NV	C	BIF
1	2001	11227	11415	6013	3983	4930	9630	6813	9372
2	2002	11886	13519	9662	7331	8431	13761	11314	16691
4	2003	17553	14896	14076	10800	11010	17302	15610	21931
5	2004	18620	16501	15944	11269	14467	21977	16627	28006
6	2005	23210	20144	17756	11432	17810	23836	22697	27561
7	2006	18218	17705	14994	9564	15161	20027	19419	27034
8	2007	20165	17467	17202	11848	15567	24182	20170	37244
9	2008	20169	19696	20380	12249	16855	24440	21561	32560
10	2009	16500	14667	15691	9553	12530	18102	15624	23699
11	2010	15887	14867	15389	10683	12170	19423	16516	23920
12	2011	17646	16120	17053	12548	13485	21164	16826	25241

Source: *New businesses and entrepreneurs profiles*, INS, Bucharest, 2013, p.5

Jan. 1995	388.180	2003	123.178
1995	68.772	2004	143.411
1996	51.684	2005	164.466
1997	50.516	2006	141.822
1998	66.841	2007	163.845
1999	55.852	2008	167.910
2000	63.941	2009	126.368
2001	63.383	2010	128.855
2002	92.595	2011	140.083

Source: *New businesses and entrepreneurs profiles*, INS, Bucharest, 2013, p. 4

The rate of the creation of new businesses calculated against the stock existing on January 1 1995, i.e. 388.180 falls in the range of 13-17% until 2001, recording a significant increase generated by the improvement of the business environment, positively impacting the national production expressed in GDP. The number of newly created companies after 2003 is higher than 100.000, reached a peak in 2005 and oscillated during the following years [4].

The distribution of newly created businesses by development regions indicates the fact that during 2001-2005 there was an increase of their number in almost all developing regions after which the evolution was negative, with a rebound in 2008. Amid the global financial crisis, the total number of newly created businesses decreased. However, in 2011 there is stability in the Central area and a slight increase in other regions.

Thus floating dynamics concerning the number of newly created businesses indicates the instability of the Romanian business environment [1].

Distribution of newly created businesses by size class and the number of employees by

region highlights the large share of micro enterprises in total SME`s. However, the global financial crisis from 2008-2009 changed the business structure resulting in a decrease in the number of micro enterprises in favor of SME`s.

Table 7. Distribution of newly created businesses by size class (%)

Year	Size class	Country	of which regions:							
			NE	SE	S	SW	W	NW	C	BIF
2008	0	65.6	59.0	64.0	69.8	66.9	67.5	67.6	74.7	53.6
	1-49	34.1	40.8	35.8	30.1	33.0	32.0	32.0	24.5	46.1
	>49	0.3	0.2	0.2	0.1	0.1	0.5	0.4	0.8	0.3
2009	0	72.2	69.5	71.9	69.8	69.1	71.6	78.6	80.3	66.7
	1-49	27.6	30.5	28.1	29.9	30.9	27.9	21.4	19.7	32.8
	>49	0.2	0.0	0.0	0.3	0.0	0.5	0.0	0.0	0.5
2010	0	67.4	65.4	58.3	68.8	59.0	65.0	74.7	78.1	64.7
	1-49	32.2	34.4	41.3	30.8	40.7	34.4	25.0	21.4	34.9
	>49	0.4	0.2	0.4	0.4	0.3	0.6	0.3	0.5	0.4
2011	0	58.7	53.8	57.7	59.7	59.2	69.0	55.9	63.7	55.6
	1-49	40.9	45.9	41.0	40.1	40.7	30.2	44.0	36.2	44.1
	>49	0.4	0.3	1.3	0.2	0.1	0.8	0.1	0.1	0.3

Source: New businesses and entrepreneurs profiles, INS, Bucharest, 2013, p. 24

By regions, the distribution is relatively equal, a higher percentage of micro enterprises has Western region and the smaller businesses are more numerous in the North Eastern region.

Another aspect analyzed was the distribution companies on fields and by region.

If the five sectors at European level in

which SME`s actives are: wholesale and retail trade; production; construction; professional activities, scientific and technical services; hotel and catering sector, the activity fields related to newly created businesses at national and regional profile are described in the following table:

Table 8. Distribution of newly created businesses by sector (%)

Sector	Year	Country	of which regions:							
			NE	SE	S	SW	W	NW	C	BIF
Industry	2008	12.7	10.5	9.7	14.2	10.0	9.1	16.6	12.4	16.2
	2009	14.5	14.2	8.0	11.1	15.5	14.5	9.5	25.1	16.3
	2010	12.4	14.1	11.1	15.3	9.5	14.1	11.3	13.9	10.4
	2011	16.8	14.7	12.8	14.4	14.1	11.7	14.3	19.6	32.1
Construction	2008	17.5	16.4	15.3	18.1	16.3	15.5	25.4	17.4	11.6
	2009	9.8	9.1	8.1	11.6	7.4	7.2	17.4	8.8	7.8
	2010	9.1	9.9	5.9	6.8	7.3	7.5	15.4	9.5	9.3
	2011	11.7	12.8	10.1	14.4	7.3	1.4	14.3	14.3	9.0
Trade	2008	45.6	53.3	51.0	40.6	54.6	44.6	40.2	44.4	39.8
	2009	48.9	51.1	60.0	51.2	52.9	49.9	40.2	33.5	53.3
	2010	51.1	56.2	53.4	61.0	60.4	51.4	39.0	40.4	51.2
	2011	43.1	38.5	46.0	50.3	56.3	35.3	39.7	40.4	40.6
Transports	2008	9.3	6.3	11.2	7.8	9.3	12.1	9.4	9.2	10.0
	2009	8.3	6.1	8.1	9.2	10.6	11.0	11.8	6.5	6.2
	2010	8.2	9.2	10.2	7.5	8.1	9.1	9.1	5.6	7.6

	2011	10.4	9.0	14.6	12.2	6.0	10.8	13.5	9.9	5.9
Hotels and restaurants	2008	4.8	5.4	5.6	3.8	4.3	5.5	4.5	6.6	3.3
	2009	6.8	8.2	5.1	5.7	9.8	10.7	5.8	8.7	4.4
	2010	6.9	7.2	5.2	5.3	4.0	6.1	11.3	8.8	6.4
	2011	6.7	5.8	6.4	4.3	7.5	7.8	7.9	8.0	6.1
Other services	2008	10.1	8.1	7.2	15.5	5.5	13.2	3.9	10.0	19.1
	2009	11.7	11.3	10.7	11.2	3.8	6.7	15.3	17.4	12.0
	2010	12.3	3.4	14.2	4.1	10.7	11.8	13.9	21.8	15.1
	2011	11.3	19.2	10.1	4.4	8.8	24.0	10.3	7.8	6.3

Source: *New businesses and entrepreneurs profiles*, INS, Bucharest, 2013, p. 28

The data from the table gives an overview on the evolution of Romanian business environment and the creation of the new businesses on fields in the next period of the global financial and economic crisis. We find that the most affected was the construction sector so that in 2009 the number of newly created businesses halved compared to 2008, continuing the negative trend in 2010 and in 2011 held a slightly recovery of the field.

The industrial sector, namely manufacturing industry had fluctuated maintaining the range of 12-16 percent.

The highest share of newly created businesses in the period 2008-2011 is reflected in the trade sector where the trend was positive and after installing the global crisis in 2008 respectively 45.6%, 48.9% in 2009 and 51.1% in 2010. We note that from the total, half of newly created businesses have chosen the trade field. In 2011 the evolution of the trade field is negative, due to shifting business to other sectors such as construction and transport.

The attitude of entrepreneurs in the period 2008-2011 was "to take advantage" of the opportunities offered by a period of economic and financial imbalances and the business reorientation towards sectors with a low know how, limited entrepreneurial initiatives and moderate earnings in short time.

Data by regions match with national average except the Bucharest-Ilfov region, where the newly created businesses in the industry level in 2011 are much higher than the national average.

In the South West region in 2008-2011, percentage of new business in trade sector is higher than the national average. In the Western Region in 2011 a high percentage of 24% of new business is in services, while the national average is 11.3% on the same sector.

## 6. Conclusions

The analysis of the newly created businesses, the business demography highlights the manifestation of turbulence in the year 2010 in the input and output of businesses from the business environment, after a consistently positive trend prior to this moment; however, there is a growing trend of the registration numbers in 2011, after which the trend is downward.

The effects of the economic crisis overlapping the burdensome and unstable regulatory framework resulted in the erasing of a total number of 549.792 companies during 2008-2014.

To revitalize the Romanian business environment the national and regional authorities should implement a series of measures set out in the Action Plan for entrepreneurship development adopted by the European Union Member States, and which states: the reduction and simplification of administrative procedures for the creation of new businesses; the facilitating of the transfer of business; insolvency and granting a second chance for the honest insolvency cases; the access to financing, entrepreneurship education and training for the youth, support for entrepreneur targeted groups (youth, women, seniors).

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# Reorganisations a Two-Way Road Between Economic Drivers and Tax Planning

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## Abstract

*Nowadays, multinational companies are playing an important role within the worldwide economy. These can be seen as important investors, as they bring significant benefits for home countries, as well as for the host countries, such as the spread of technology, the development of the human capital etc. Nevertheless, their presence all over the world trigger also negative effects for example job losses, sometimes on a large scale, reduction of the competition in a certain market etc.*

*The figures have shown that the number of cross border transactions significantly increased. The main economical drivers in favour of such operations are: the rationalisation of the supply chains, the reduction of costs and the efficient allocation of the resources at group level. Nobody should forget that a reorganisation process may bring also tax advantages.*

*The present paper aims to address the subject of reorganisations, as a two-way road between economic drivers and tax planning.*

**Key words:** mergers, acquisitions

**J.E.L.:** G 34

## 1. Introduction

Nowadays, multinational companies (“hereinafter MCs”) are playing an important role within the worldwide economy. The technological progress is a major factor that contributed to the spread of economic activities carried on by a single entity all over the world. Based on the information made available by the WTP, the Top 500 multinational corporations account for nearly 70 percent of the worldwide trade; this percentage has steadily increased over the

past twenty years [1].

The MCs can be seen as important investors, as they bring significant benefits for home countries, as well as for the host countries, such as the spread of technology, the development of the human capital etc. Nonetheless, their presence all over the world triggered also negative effects for example job losses, sometimes on a large scale, reduction of the competition in a market etc.

In order to increase their presence over certain countries, regions, generally a MC identifies domestic companies with similar profile that are subsequently absorbed/acquired.

In the last years, cross-border transactions proved to be very attractive for investors, as one of the main advantages are the cost savings derived through the business restructure, from both a tax and operational perspective.

From a tax perspective, the reorganizations can bring tax benefits if it are properly implemented, otherwise the tax authorities can challenge their economic substance leading thus to additional tax liabilities, fines, as well as interest and late payment penalties.

From an operational perspective, a business restructure may lead to: rationalization of operations and resources involved, reduction of the administrative costs as well as to the increase in the production efficiency and the quality of the final product through the implementation of a proper investment plan.

## 2. Forms of business restructuring

The most popular transactions that can be performed are: mergers, spin-offs, transfer of business, joint-ventures and strategic alliances. Such transactions can be performed at a domestic level, as well as at a cross-border level. In comparison with a local

transaction, a cross-border transaction involves the understanding of the local laws from the jurisdictions the companies subject to this operation are located. Thus, a cross-border transaction is in substance a more complex process that requires significant resources in order to be successfully implemented in a cost-efficient and timely manner.

The choice of implementing one of these structures depends on the company's strategy however it is worth mentioning that all of them have the same goal: increase the economic benefit and reduce the resources involved.

Further to a reorganization process, the companies involved in such a process are combining their forces getting thus a significant market share. However, the adverse effect of such structure is the reducing of the competition that can harm the local consumers.

In the age of globalization, the competent authorities are monitoring the restructuring operations that are going beyond the national borders and that can create dominant players. For example, at European level, such transactions are carefully examined by the European Commission.

### 3. Approval of the European Commission

As a general rule, only the “large mergers and acquisitions” are subject to the European Commission, hereinafter “EC”, while the smaller ones are monitored by the local competition authorities. The companies involved must notify the EC before the merger implementation. The large mergers and acquisitions are thus that reach a certain turnover, as detailed below:

- a) “The first alternative:
- The worldwide turnover derived through the merger of the companies is over €5 000 million, and
  - The EU turnover derived for each of at least two of the companies is over €250 million.
- b) The second alternative:
- The worldwide turnover derived through the merger of the companies is over €2 500 million, and
  - In each of at least three Member States

the aggregated turnover derived by all the companies involved is over € 100 million,

- In each of at least three Member States mentioned above, the total turnover derived for each of at least two of the companies involved is over €25 million
- The EU turnover of each of at least two companies is more than €100 million [2] and” [3].

It is worth mentioning that these rules apply irrespective to the location where the merging companies have their registered office, headquarter, activities etc., as a merger between companies located outside the EU's border that carry business in the EU may affect the market.

In certain condition a large merger may not be fully investigated by the European Commission. In order to be applicable the simplified procedure, the derived market share should not surpass 15% on any market where the companies compete or 25% on vertically markets also known as “niche” markets.

The EC's approval process involves two phases:

Phase 1 – Investigation – Under this phase the EC representatives investigate the transaction, request additional information, interviews the merging companies in order to clarify the role of the companies in a specific market. “Statistically speaking, under this stage more than 90% of the merger cases submitted with the competent tax authorities are solved. The EC's investigation should not last more than 25 working days”[3].

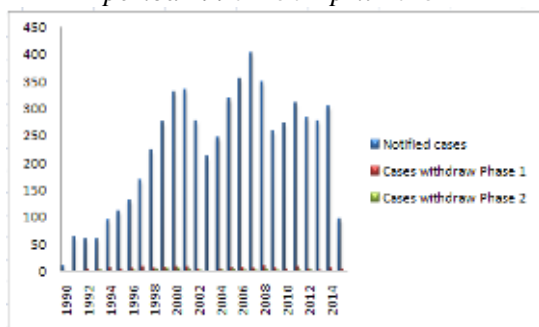
The results of the investigation are made available to the merging companies. If, the outcome of the analysis performed reveals certain competition issues, the merging companies can propose certain solutions. In this case, the Phase 1 would be extended with 10 more days.

Phase 2 – In-depth analysis –the Phase 2 involves a detailed analysis on the merger's effects. Generally, under this stage, the EC representatives investigate the impact of the merger on the consumers by performing market research, review company's internal documents in order to get a better understanding on the merger's impact on the competition. In case the result of this Phase is not suitable for the merging companies, as the merger operation harms competition, they

have the right to look over the analysis performed by the EC representatives and to request an audience. This phase lasts 90 days, however the deadline can be extended if the information requested by EC representatives is not made available.

The figure below illustrates the number of merger operations that were brought in front of the European Commission for the approval, as well as the number of cases rejected under each Phase.

*Figural: The total number of large mergers subject to EC approval during the period 1990 – 30 April 2015*



Source: The figure was prepared by the author based on the information made available on EC website (<http://ec.europa.eu>)

As it can be observed from the figures above, during the period 2010 – 2014 the number of large mergers increased approx. with 10%.

The most recent large merger that impacted also Romania was the acquisition of Lafarge by Holcim. Lafarge. Both Lafarge and Holcim produce building construction materials, such as cement, ready mix concrete and other materials. Holcim headquarter is based in Switzerland. The group is present in more than 70 countries, including Romania, and has an annual turnover of more than EURO 16 000 million. Lafarge headquarter is in France and has a worldwide presence, as the group carries on activities in 64 countries, including Romania. Its annual turnover is around EURO 15 000 million. As the merger between Lafarge and Holcim classify as a large merger from the EC perspective, the representatives of Lafarge and Holcim notified EC in order to revise its case. As the merger of the envisaged companies represents a risk for competition and for EU consumers, Holcim and Lafarge were subject to certain

commitments. The deal between Lafarge and Holcim is accepted by the EC only if in the markets where their operations are significant Lafarge and Holcim take the commitment to sell the division that can reduce their market quota on the respective market. As a result in 7 European countries ( UK, Germany, Romania, Slovakia, France, Czech Republic and Spain) Lafarge and Holcim were obliged to restructured their business before the effective merger.

For example in Romania, Lafarge must sell the cement plants from Medgidia and Hoghiz, a grinding station at Targu Jiu, the SICIM terminal and terminals in Cluj and Glina [3].

Besides the impact of the merger and acquisition on competition and consumers, these reorganisation forms are also on the agenda of the tax authorities as these may erode the taxable base.

#### 4. Economic reasons versus tax planning

The aggressive tax planning is a hot topic on the agenda of many tax authorities. Aggressive tax planning represent the situation when economic agents benefit from various tax advantages due to gaps between two or more tax systems [5]. As a result, the economic agents artificially shift profits to places where there is little or no economic activity or taxation. The aggressive tax planning can take various forms, such as multiple deductions for a single expense or double non-taxation.

In order to prevent the aggressive tax planning, authorities developed various strategies and increased international co-operation. The main actions taken by the international bodies aim to neutralize the Effects of Hybrid Mismatch Arrangements, strengthen Controlled foreign companies rules, limit Base Erosion via Interest Deductions and Other Financial Payments. In addition, the tax authorities will investigate the utilization of the tax losses further to corporate reorganizations, use of financial instruments and non-arm's length transfer prices. Last but not least, in the near future the taxpayers will have to disclose their aggressive tax planning arrangements.



## **5. Merger Directive**

### **5.1. General consideration on Merger Directive**

On 23 July 1990 the Council adopted Directive 90/434/EEC on a common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States (the “Merger Directive”).

The objective of the Merger Directive is to remove fiscal obstacles to cross-border reorganizations involving companies situated in two or more Member States [6].

### **5.2. Potential issues that may arise in applying the Merger Directive procedures**

- The applicability of the Merger Directive

The provision of Merger Directive applies only to cross-border reorganization when two or more companies from the Member States are involved. At this stage, a pertinent question that may be raised is whether, the provisions of the Merger directive are still applicable if the shareholders of the merging companies are not located in the Member States.

- Limited recovery of the tax losses

Under the Merger Directive provisions, the recovery of the tax losses at the level of the absorbing company applies only to the receiving company's permanent establishments within the Member State of the transferring company.

- Tax neutral event

The merger is a tax neutral event provided that: a) the transaction has as its principal, or as one of its principal objectives, fraud or tax evasion; b) further to the merger, the representation of employees on company organs is no longer applied.

How can defend the taxpayers the economic substance of the transaction if no clear tax provisions are in place in this respect? Is it a specific ratio to be obtained between the tax savings in overall cost savings to be able to defend the tax neutrality of the merger?

The above concerns still need further clarifications to be provided by the tax authorities.

## **6. Reorganizations in Romania**

### **6.1. General considerations on the Romanian tax legislation**

The general legal and tax framework for mergers and acquisitions in Romania is represented by: Law 31/1990 regarding the Romanian Company Law, as amended and republished, the Order 1376/2004 regarding accounting procedures for mergers, spin-offs, dissolution, liquidation of companies, withdrawal and exclusion of shareholders, the Romanian Fiscal Code and the related Methodological Norms.

Under the Romanian tax legislation a reorganisation operation such as mergers, spin-offs is tax neutral if such transaction has economical grounds and it is not purely tax driven. The same provision is applicable to the cross-border transactions that involve one or more Romanian legal entities.

It is worth mentioning, that the Romanian tax legislation implemented the provisions of the Merger Directive, with no supplementary clarifications in this respect.

The section below describes some potential issues and possible solutions that may arise under such process, from the perspective of the Romanian tax legislation.

### **6.1. Potential tax issues and possible solutions**

- Economic substance requirement

A few years ago, more specifically in 2013, in the Romanian tax legislation was introduced an anti-avoidance measure that allows the Romanian tax authorities (“RTA”) to reclassify a transaction in order to reflect its economic substance.

An artificial transaction is defined as a transaction without economic substance that is not part of common business practices, having as its main purpose the avoidance of taxation or obtaining fiscal advantages that would not have been otherwise achieved [7].

Despite the definition of the artificial transactions, the tax legislation does not contain sufficient information on the cases

when the RTA are liable to reclassify a transaction into an artificial transaction.

In practice, the RTA may challenge the economic substance of the transactions if insufficient arguments are brought by the merging companies. In the near future, the author expects that the RTA to focus more on mergers and acquisitions, as these represent a good tool for tax planning.

The lack of the experience of the tax inspectors and the confuse legislation may raise significant problems to the bona fide taxpayers. In order to defend the business restructuring in the front of the RTA, the merging companies need to gather sufficient documentation that can substantiate the economic benefits that can be derived from the envisaged merger. The documentation prepared need to reflect the specific circumstances that governs the envisaged merger.

- Distribution of titles

Under the Romanian tax legislation, the merger is an operation where one or more companies are dissolute without going into liquidation and transfer all their assets and liabilities to another company, in exchange of the allocation of shares representing the share capital of that other company, and of cash payment (if the case), not exceeding 10 % of the nominal value of the shares so allocated, or in the absence of the nominal value, of the accounting value of that shares [7].

Order 1376/2004 provides that no shares will be issued in case of a merger where the absorbed entity has negative net assets and the transfer of its patrimony is made according to the book values [8].

In such case, the question that arises would be if the merger can be considered a tax neutral event, given that no shares are issues to remunerate the former shareholders of the absorbed entity. According to the Romanian tax legislation, a merger is tax neutral if a distribution of shares to the shareholding of the merging companies takes place. In order to comply with the tax legislation, the absorbing company should distribute at least one share to the shareholders of the absorbed entity.

- Recovery of the tax losses

Under the Romanian tax legislation, currently tax losses of the absorbed entity can be taken over by the absorbing entity, proportionally with the part of the assets and liabilities transferred according to the merger project. In order to benefit from the recovery of the tax losses, both companies involved in the merging process must have a detailed record of the tax losses. Same provision is applicable to the cross-border reorganization, involving one or more Romanian companies.

The advantage of taking over the tax losses further to a reorganization process encourages the implementation of such operations. However, as mentioned above, the OECD encourages tax authorities to introduce restrictions on the use of certain losses in the context of reorganizations in order to prevent the aggressive tax planning.

In this context, we will see, whether this measure undertaken by the RTA in order to stimulate the business environment in Romania will be applicable in the near future.

## 7. Conclusions

In the age of globalization, the number of cross-border transactions has significantly increased. Furthermore, the economic context forced the shareholders to rethink their businesses both from and operational and tax perspective.

The concern of the tax authorities to protect their taxable base, along with the confuse legislation may lead to abusive behaviour from their side. The latest trends revealed a predilection of the tax authority to investigate the business reorganizations due to the significant tax savings that can be derived further to implementing such an operation.

Strong economical arguments must be hold by the companies involved in a reorganization process as nowadays the tax authorities starts their investigation from the assumption that the envisaged companies are susceptible for tax evasion.

In conclusion, the author considers that special attention should be given to the tax implications of a reorganisation process in order to comply with the regulatory and tax framework.

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# The Impact of New Technologies on Customer Relationship Management

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## Abstract

*In this paper, it has been tried to emphasize the impact of new technologies on Customer Relationship Management, how the customers understand the Customer Relationship Management and the mistakes that the companies are facing when they apply a CRM system. Modern information technology tools are used to collect useful data from customers. Using the information correctly, develops and it creates value for the company. CRM allows company to gather data from customer, identify the most valuable customers over time and increase loyalty by providing them customized products and services.*

**Keywords and phrases:** CRM; Information Technology (IT), Business

**JEL Classification:** M15

## 1. Introduction

CRM implementation is not an easy duty. Starting in the mid-1990s and heavily promoted during the late 1990s, the term ‘CRM’ still means different things to different people [1]. Winer [2] builds on this notion that CRM is ill defined. He states, CRM means different things to different people. For some, CRM means direct e-mails. For others, it is mass customization or developing products that fit individual customer's needs. For IT consultants, CRM translates into complicated technical jargon related to terms such as OLAP (on-line analytical processing) and CICs (customer interaction centers).

Lovelock and Wirtz [3] define CRM as “the overall process of building and maintaining positive and profitable customer relationship trough creating values and satisfaction for customers”

Reinartz, Krafft, and Hoyer (2004) define CRM as, “A systematic process to manage

customer relationship initiation, maintenance, and termination across all customer contact points in order to maximize the value of the relationship portfolio”

Many researchers define CRM as technological solution – a software application that helps in the sales force automation, marketing process and services regarding the business sector. The ones who think that CRM is synonymous with IT applications are wrong. A definition based only the technological concept can be really tricky and can change the entire focus of the CRM applicability.

In my point of view CRM is a business practice that involves strategy and operations in an integrated effort to enhance the relationships with customers using optimized sales, marketing activities and connected services, which should lead to growing customers` satisfaction and loyalty.

## 2. Tools in CRM

A main component of any CRM strategy entails the facilitation of two-way interaction between individual customers and the organization (external communications) about every aspect of the relationship, enabling the organization to adjust its strategy, including product design, customer service and channel preferences.

CRM applications can use more advantages of technology; CRM application provider can use technology to gathering data, producing knowledge to predicting the behavior of customers and patterns of trade. Central foundation to CRM applications are Data warehouses, enterprise resource planning (ERP) systems and the Internet. [4]

According to some specialists [5], the technological factors of CRM can be described as follows:

- Data warehouse technology: a warehouse of data. This tool can transform customers` related data into customer

intelligence for finding the way customers act and behave. [6]

- Enterprise resource planning (ERP) systems: ERP systems are used to save time, resources and represents a strong base while “CRM tries to connect front and back office applications to maintain the customer relationship and making loyal customers”. An ERP system covers different departments of a business: production department, financial department, acquisition department, logistics department, sales department, etc. and integrates them with suppliers and customers, reducing the risks of operational errors. [7]
- Internet: The development of Internet and communication standards offer special opportunities to connect the company with its customers and create stronger relationships in order to gain customers trust and make them loyal. The CRM developed a lot due to the internet, and responding to customer needs and problems in real time created advanced customer service. [7]
- Telecommunications and media technologies: “CRM is using social media to serve customers better, build support, enhance the customer experience, help customers in their chosen channels and cooperate with customers.” [8]
- Data analysis technologies: There are different types of data analysis techniques in CRM; two main of them are: a) OLAP: Online Analytical Processing collects a group of data bases that are related with each other in one or more dimensions, like location. For instance, the customers can earn a more detailed view of the data by their level of access to database [9]. b) Data mining: by using different ways, data mining can extract information from customers` data. Data mining (sometimes called data or knowledge discovery) is the process of analyzing data from different perspectives and summarizing it into useful information - information that can be used to increase revenue, cuts costs, or both. Data mining software is one of a number of analytical tools for analyzing data. It allows users to analyze data from many different dimensions or angles, categorize it, and summarize the relationships identified. Technically, data

mining is the process of finding correlations or patterns among dozens of fields in large relational databases.

Data mining helps CRM to find the behavior of customers and patterns of buying, finding the market segmentation and finding potential customers. Therefore organizations can predict customers` needs and increase customers` satisfaction. Result is trust to organization and making loyal customers.[10]

- Computer Telephony Integration (CTI): Nowadays the customers are cooperating with the companies. CTI is a technology that mixes telephone systems with computer technology in order to respond quickly to customers.
- Knowledge management: It is important to know the past to predict the future that’s why information like historical sales and revenue reports are very important. [11].

According to Gubser (2001), some of the interactive technologies that provide interactive customer communications and that include:

**Intelligent email:** “Email remains an important method of customer contact for more than 70% of online businesses” [12]. The development this technology implies automatic generated e-mails – response type. This is based on searching the answers in a predefined data base according to the demand written by the applicant. This represents a personalization and a development of the answers to predefined questions -frequently asked questions (FAQs). The customer receives quickly its answer, with or without knowing that the answer was actually generated by a computer program. Reducing the answer time, increase customer satisfaction and subsequent loyalty and retention rates. This technology can be developed by integrating voice messages in the e-mail, creating connections between call center and email.

**Collaborative chat:** The organization comes closer to customers by using chat programs directly on their websites. This tool allows customers to receive the answers to their questions in real. Live collaborative chat function satisfies better the needs of their customers or potential customers. A Customer Service Representative (CSR) gives all the information needed and of

course the CSR has access to all the customer's history with the organization (when talking about past-clients) and they will be able to interact with the customer in a more meaningful way [12].

**VoIP:** VoIP is a technology whereby an organization's Local Area Network (LAN) or Wide Area Network (WAN) can be used to transfer both data and voice. An organization no longer needs to pay a telephony company or use physical phones in order to communicate to the customers, but also inside the organization. There are specific programs as Skype, Ymessenger, MSN that are used to communicate. Not to forget that VoIP can be used on smartphones by downloading a specific program, people connect worldwide without any costs. Internet made it possible. Another strong reason that without Internet we were not talking about customer relationship management.

Gubser also talks about **telephony:** Computer telephony integration (CTI). We believe that customers need quick answers and information, that's why on some websites, customers can write down their phone number and they will be reached by a CSR. The customer can be redirected to a specialist that gives specific information and “catches” the client, growing the profitability of the organization.

Moreover, the **social media** should not be forgotten in the process of CRM - In today's social media driven world, it is essential to have a CRM system that includes your social media interactions with customers. But "it's not enough to merely collect and monitor [this information]," says Sid Banerjee, CEO of Clarabridge, a provider of customer experience management solutions. "Businesses need to intelligently listen to their customers and... actively engage with [them] over Facebook, Twitter and other social outlets," he argues.

Truly successful CRM depends on developing a deep understanding of what the customers want. The use of social media is the way to do this. Companies need to know what customers are talking about and be part of that conversation. Organizations should listen, learn and engage with customers and try to deliver what they want and what they need.

Social media is not anymore a simple two way relationship but one based on collaborative relationships. The social feedback sites can begin polling customers, finding out about their likes and dislikes, their wants and needs.

The significant use of social media is a response to consumers` pervasive use of a social media in their daily lives. Facebook, Twitter, Youtube, Instagram, Pinterset, Snapchat are just some of the social media with millions of daily users. Beyond these social networks, other social media include sites, such as Amazon, TripAdvisor, the entire Google network, allowing peer-to-peer interaction. [13]

The benefit: Social information and engagement can produce vital customer insights and create a long-term relationship with your customers that can then be used to improve the customer experience and ultimately benefit an organization's bottom line.

The latest trend in CRM is to try to take advantage of social media, whose relational properties and characteristics are particularly suited to customer interactions. [14]

### 3. Role of CRM solution

A CRM solution has the role to organize and automatize the business processes of an organization, especially the sales, marketing, customer service and technical support divisions. A CRM system generates a complete customer relationship management that offers complete, centralized, up to date and easy to access information about customers, helping in taking the best strategic decisions in sales and marketing. A CRM system exceeds the role of a simple software implemented in an organization because it's more than an operational system, it's a strategic one. An important matter in implementing such a system is the assimilation instalment and its proper usage within the organization. This is what offers the success of a CRM project. A CRM automatize some processes, change that way of work of people in the organization and standardize the best practices in the field.

#### 4. The benefits of implementing a CRM system

We believe that the key benefits of CRM are:

- Obtaining a 360 degree perspective of the customer, allowing personalization of services, product range, communication channels, etc.;
- Improving service quality by increasing efficiency and process automation
- improvement and level of customer satisfaction through better service, personalized offers and communications activities;
- Increase customer loyalty through effective cross-selling activities ( cross-selling ) and up-selling activities( up-selling );
- Reduce costs by increasing operational efficiency and process automation;
- Increased brand value through a better buying experience.
- Increased business profitability

Moreover, other benefits of the CRM are: quick access to information facilitates responses to customer requirements:

- Prevention in duplication and filtering them to remove erroneous data;
- Extracting the data in a simple way, its control and navigation through the database, CRM systems offers a customer transparency, an analysis of profitability and retention models;
- By integrating advanced data and the data analysis tools provide standardized quality reports to the organization;
- Facilitates calculating the present value and the future estimated value of each client.

The use of integrated data solutions can generate a significant return on investment (ROI). The advantages are: better cross-selling and up-selling (facility to improve modeling and to create a better sight of their clients), improving the skills to maintain customers (avoiding the attrition of customers), improving the technique of attracting new customers.

The competitive advantage of CRM – CRM is defined as a strategy to manage the relationship with customers and the interaction with them in the most profitable way for both the company and

the customer. There are some suppliers that offer operational CRM solutions that allow implementing traditional strategies of CRM. These typical strategies are supported by solutions based on how to make services, sales, marketing department, more efficient, growing organization profitability and its clients also.

#### 5. Mistakes when implementing CRM

Companies make an intelligent investment with CRM, which is why they want to be sure they will derive maximum value from their investment. With this in mind, the question is why the same mistakes are continually made when companies purchase and implement CRM. Even organizations with prior CRM experience are repeating the same mistakes before finally getting what they need. Some of the most common CRM mistakes, and how to avoid them, are highlighted below.

- Putting the IT Department In Charge of The Implementation - When an organization is implementing any type of software project, especially one that is highly reliant on user input like a CRM system, it is the individuals who will be using the software who need to lead or at least have input. At the same time the IT department should offer support as needed. When the people who are supposed to be using the software are put in charge, it helps to ensure they will use it instead of finding reasons against adoption. Additionally, if we put the IT department in charge of our CRM system, they will probably run it based on what they want, rather than the actual business needs. [15]
- Failing To Consider The End User - In order to achieve success with the CRM system, it is essential that organization gets its end users involved prior to even looking at the options that are available. Explain to your end users how this new platform will benefit them. This discussion needs to focus on the CRM solution as a tool to improve the entire organization and achieve various organizational goals, such as enhancing

revenue, reducing company costs, saving time, improving sales metrics and automating processes.

- Focusing on Price as Opposed to Value - While the price is definitely an important factor, when looking for CRM software, there are some companies that may think about it too much. If we do not want to take a decision based on price: we should find something that will fit the needs of the organization, that is simple to use and that the IT will be able to provide support for.
- Failing To Integrate the CRM System With Other Critical Systems - In order to optimize the CRM investment, it is crucial to integrate it with the other systems. For example, when the organization integrates it with the email and ERP system, it can help increase your revenue significantly compared to companies that do not do execute this significant action item.
- Not Determining a Path To Success - If the CRM solution is implemented without any solid goals it can fail. It is important to have metrics and goals for each of the business areas that are going to be impacted by the new system. When you know what the most common mistakes are, you will have a much better chance of avoiding them. This is essential for any company that wants to get the highest return on investment as soon as possible.
- Ignoring social media solution as a CRM tool - Customer relationship management is a continually evolving domain that has been particularly affected by social media, which have revolutionized the way businesses and consumers interact.

## 6. Making CRM successful

The CRM is more than a measuring clients` satisfaction system, it is more than developing a new website or a call center. Being focused on clients, CRM represents a new business model that has a major effect on human resources, processes and technology.

There are certain factors that we should consider when implementing a CRM solution:

Establish measurable business objectives: it is very important to define specific benefits that are expected to be delivered by the

CRM. Each organization should clearly define what it tries to accomplish when implementing a CRM solution. There are questions that should be answered: do we want growing our net profit? Do we want to improve the clients` retention rate? Reducing costs achieving new customers? Enhance the prediction rate? Improve the responding time? Each company should know what their goals are and prioritize their objectives in order to find the best solution.

Aligning the business objectives with the IT operations – the responsibility when implementing a CRM solution comes both to technicians and business sponsors.

Moreover the final users should be involved in the project from the beginning. In case of involving the final user at the end of the project, there are some risks of implementing an incomplete solution , a less productive one or less efficient.

There should be a proper training for the users of CRM solution. The final users should understand how the CRM technology works and how the new processes help them achieve their goals, being more effective on long term.

Once the solution has been implemented, organization should measure and monitor the efficiency of the solution in order to improve it continuously. Organizations should make a comparison between processes from the beginning and identify performance rates and the correlate the way CRM influences these rates.

## 7. Conclusion

The discovery of the Internet has been an important factor in the development of these huge databases because it allows external data storage. Companies were facing a difficulty in storing large amounts of information, and CRM came to their aid, based on the new possibilities that the Internet was offering.

New CRM technologies bring cost savings and faster customer service when applying them correctly. Organizations should be very careful when implementing a CRM system and take a look on the mistakes that they are facing, in order to make CRM successful.



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## On the Issue of Tourism Potential of Kutaisi and Its Surrounding Area

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### Abstract

*The paper deals with the issue on potential development of tourism in Kutaisi and its surrounding area. SWOT analyzes is performed to identify the major problems. Besides, specific recommendations are worked out according this analyzes. Kutaisi seems to be very perspective in terms of tourism development. It is rich with mineral waters and historical and cultural sights. That is why we believe that Kutaisi can be turned into one of the important centers for the development of tourism in case of support and maximum assistance to the use of its capacity.*

**Key words:** *tourism potential, Kutaisi, Historical and architectural monuments.*

### 1. Introduction

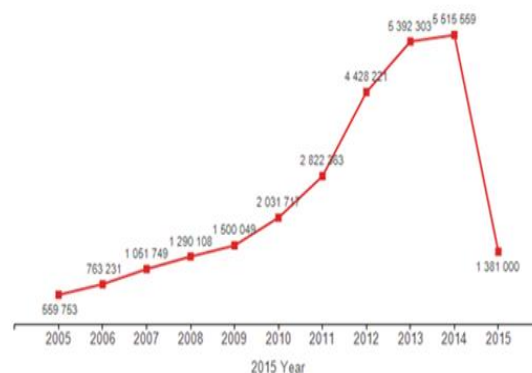
The development of tourism is recognized as a priority for economic development of Georgia. Well-planned development of tourism along with the attempt to make the national tourism as competitive as possible in the international tourism market is known to be a strategic task of our country. Georgia as one of the best tourist destinations has much to offer the visitors: a picturesque nature, landscapes, resorts and mineral springs, historical, architectural and cultural monuments, traditional Georgian hospitality and famous Georgian cuisine.

### 2. Tourism in Georgia

Domestic and international tourism plays an important role in the economy of our country. The cost made by foreign visitors

has a significant impact on the balance of payments of Georgia. Approximately 58% of service export revenues from tourism. There is an increasing tendency of income from international tourism in Georgia. Consequently, in 2013 the income from international tourism exceeded US \$ 1.72 billion. According to the report (December 2013) made by world tourism organization „UNWTO World Tourism Barometer” Georgia appeared to have the highest percentage of growth based on international tourism income.

Figure 1. International Arrivals by Years



Source: <http://stats.georgia.travel/Default.aspx>

Georgia's tourism development strategy is based on the principles of sustainable tourism development that are worldly accepted. Georgia shows a clear preference to stimulation of the market demand. In the country as Georgia with so high tourism and resort development potential, tourism gives the priority to the following criteria:

- High quality of exportability of tourism. Therefore, recognizes the importance of tourism in terms of the growth of income and the great potential of tourism development;

- Tourism plays an important role in the development of work places and in the increase of employment opportunities;
- Tourism will support the equality of regional development and increase economic growth in the regions;
- Tourism will support the development of other branches of economics (tourism related branches) and will encourage their development.

There is a growing tendency to increase the number of foreign tourists visiting Georgia. In the modern world the tourism development strategies are as the followings:

- Support and promotion of foreign tourism
- Development of domestic tourism
- Preparation and in-service trainings for qualified personnel
- State regulations of tourism
- Improvement of the legal framework and its harmonization with EU legislation
- Popularization of regional tourist resources of Georgia
- Promotion of tourism through public relations and etc.

### **3. Tourism potential of Kutaisi and its surrounding area**

One of the most beautiful cities of Georgia Kutaisi is located in equally beautiful part of Georgia –Imereti. The city of Kutaisi as a settlement grew up in the place where the river Rioni broadens its narrow banks. Kutaisi is listed among the ancient cities of the world. According to the old Greek mythology and history Kutaisi belonged to so called “Minos Age” (XVII-XV B.C). A famous Greek epic poem “Argonautica” which is no less than 3300 years old tells us a story about Jason and the Argonauts and their journey to Colchis, where the whole story is developed around the “Hegemon” city of Kutaisi and the author Apollonius Rhodius considered Kutaisi their final destination as well as the residence of King Aeëtes.

In ancient and feudal times Kutaisi intensively kept the position of the first city in West Georgia (Colchis, Egrisi, Lazeti). In spite the fact that Kutaisi lost its status of being the first city of the country it has never

lost its importance in the history of Georgia. Nowadays Kutaisi is still the important cultural-educational center of the country. The city of Kutaisi is reasonably close to the eastern coast of the Black Sea. It is also near important ports of Georgia such as Poti and Batumi. Both of these areas have a direct rail and road access to the city of Kutaisi. The distance between Kutaisi and Batumi by rail is 139 km. and the distance between Kutaisi and Poti by rail is 103 km. The distance from Kutaisi to the capital of Georgia Tbilisi is 221 km. and the distance from Kutaisi to the nearest airport Kopitnari is just 20 km.

Kutaisi is the second large city of Georgia according to its size and number of population. It's situated in the center of Imereti on the both banks of the river Rioni. City of Kutaisi is located in the center of the highways as one can go to Sukhumi, Poti, Batumi and Samachablo through Kutaisi. The city is connected to the main railway line of Caucasus line through its railway. Kutaisi Rail Terminal has direct connection with Tbilisi (Central). Line is served by Georgian Railways

The territory of Kutaisi and its surrounding area, just like the rest of Georgia, is presented with the historical and cultural monuments of ancient, late and early Christian periods. Each of them is an endless source for the groups of tourists and experts. Only in Imereti, there are more than 500 historical monuments.

Among the tourist priorities of Kutaisi and its surrounding area are resorts and recreation zones. The beautiful scenery and curative mineral waters of the region make the balneological resorts attractive for visitors.

Unlike industrial field, there is a rapid development in trade and service businesses in Kutaisi. There are up to thousand functioning trade and consumer services. There are both retail and wholesale, as well as several agricultural markets. In recent period, several large modern shopping centres have been constructed. There are up to twenty restaurants, the same number of private hotels and dozens of cafes and bars.

Kutaisi has a great perspective of tourism development. It is rich in mineral waters, historical and cultural monuments. Kutaisi is even considered a centre of tourism development in Imereti. There are

exploratory and adventurous types of tourism in the region. This is possible due to mountains and forests, which occupy 250 000 hectares. The following kinds of tourism are developed in Imereti: ecotourism, rafting on the river Rioni, mountaineering, riding, spaleotourism.

The historical part of Kutaisi has been rehabilitated and other infrastructural projects have been carried out, which was of great importance for the development of tourism. It is important that the rehabilitation and restoration of the historical image of the district was based on the materials found in archives. The Bagrati Cathedral, which is included in the list of UNESCO World heritage sites, has been restored, and the Gelati Monastery, which is also included in the list, is currently undergoing restoration works.

It is also very important to mention tourist complexes of the Sataplia State Reserve located near Kutaisi and Tskaltubo crater cave (Kumistavi, Prometheus).

In April 5, 2011, a tourism information centre was established within the joint project of tourism national administration and Kutaisi City Hall. Its mission is to support the development of tourism in Imereti region, to act as a link between tourists and tourist service, to provide tourists with full information about accommodation, food, transport, historical monuments, national parks and other tourist attractions.

Among the tourist priorities of Kutaisi and its surrounding area are preserve territories, national parks and resort zones. Among these, we should mention Sataplia reserve, Borjobi-Kharagauli national park with total size of 75 000 hectares. Today, there are 53 resort and leisure places in this area. The most remarkable among these are Sulori, Kvereti, Satsire, Zvare, Amagleba, as well as balneological resorts Tskaltubo, Nunisi, Sairme.

There are also exploratory and adventurous types of tourism due to mountainous and forest massives, which occupy 250 000 hectares of Imereti. Rural tourism acquired a new character. This business aroused interest among more than 200 agricultural farms in Imereti. Hunting tourism also has great perspectives. Georgian traditions, wine and cuisine are of particular importance. There are special service

programmes concerning this field not only in Imereti but also in Racha-Lachkhumi, Svaneti, Samegrelo to provide information about their rich traditions and folklore.

Today, there are 134 hotels in Kutaisi and its surrounding area, housing more than 3 315 guests, which is not enough considering the number of visitors. As for the main resorts of the region, Tskaltubo and Sairme, Tskaltubo, with its improved infrastructure, which should develop to become the main balneological resort in the region, has 9 hotels for 495 visitors, while in Sairme, there are 7 hotels for 1000 guests.

Despite undergoing events, there is a number of problems in the research conducted in Kutaisi and its surrounding area. According to the results, we carried out SWOT analysis, which is presented in Table 1.

*Table 1. SWOT analysis*

• **Strengths**

The city's geopolitical and geo-economic position, proximity to seaports; the well-developed transport communications (motor roads, railway, air transport) and well-organized infrastructure; the existence of a solid and rational basis for city promotion as a touristic center of the country; favorable climatic conditions; the existence of numerous and various historical monument and cultural heritage; low-crime rates; staying in the area with rich and various natural resources; resorts (balneological and healing waters; museums; landscape protected areas; literature, folklore, traditions; Imeretian cuisine; ecologically clean agricultural products; archaeological monuments; architectural structures; karst caves, canyons, ravines; investments growth dynamics; a cheap and skilled labor force; the existence of free economic zone; the well-developed network of banking and microfinance organizations, hotels and restaurants; monitoring of atmospheric air pollution; the well-developed network of regional televisions, radio and mass media; participation in the international tourist exhibitions and fairs.

• **Weaknesses**

Lack of popularity of domestic tourism among the population; low public awareness of the regional tourism potential; disorganized infrastructure in tourist zones; tourist routes and renewal of service forms

on these routes (bicycle, horse riding, picnic territories); lack of activities aimed at attracting foreign tourists, and, therefore, improper awareness of international tourism potential; technical infrastructure inadequate to modern requirements of tourism; low competitiveness of domestic tourist products; a weak advertising support of products; illegal landfills, inexistence of waste separation and recycling, as well as lack of industrial and harmful waste neutralization systems; inexistence of infrastructure required for agro-tourism availability; a weak monitoring system of environmental pollution degree; undeveloped tourist resources; language barrier; vulnerability degree of the historical-architectural and cultural monuments; low level of services; lack of professional personnel; inexistence of tourism development strategy; inexistence of visitors registration; inexistence of statistical data on revenues from tourists in the region; lack of lodging capacities; inadequate use of tourism potential; lack of services people with restricted abilities; infrastructural inadequacy of tourism potential; small number of tour operators and travel agencies; lack of infrastructure development required for different types of tourism; rehabilitation of historical and cultural heritage and site improvements; fostering the creation of regional network of the well-equipped camping sites; the absence of branding strategy for the city.

- **Opportunities**

Increasing interest of investors toward the city; increasing involvement of international financial organizations in solving the city's problems; transit tourism development potential; the possibility of developing the specialized tourism market; rehabilitation and development of cultural heritage; the opportunities for close business relationships with twinned regions and cities (Newport, Poznan, Ashkelon, Gyanja, Lvov, Donetsk, Zaporozhye, etc.) in the fields of business, education and tourism; existence of the appropriate conditions for city brand formation; reconstruction of David the Builder International Airport creates favorable conditions for touristic center formation; tendency of maximal approximation of educational system to the European level; increasing tourist flows; establishing the travel information agency in

the near future; the current process of arranging the existing landfills and construction of new ones; waste separation experience; recognizing the tourism as one of the most priorities; development of long-term and long-term development strategies for tourism; studies of tourism potential and target objects; improvement of infrastructure; organizing the meetings, discussions and debates and prioritization of problems with participation of policy-makers and experts; recognizing new tourist destinations as a touristic attraction; classification of the objects of cultural heritage; attracting the investments for reconstruction and renewal of tourism infrastructure; mobilizing and involving the local population in tourism infrastructure development; diversifying the tourism product and improvement of services; training and retraining of professional personnel; accounting of statistical information on tourist flows and creation of database; promotion of cultural values existing in tourism among the local population; providing the free Internet services in the city's recreation areas; construction of new landfill and waste recycling enterprise; supporting the conduction of various types and scales sports competitions, folklore festivals and other events during the different memorable days of municipalities; fostering the organization of cultural, adventure, medical, religious, rural, eco, sports and other fields of tourism, creation of tourist routes; development of local network for production and selling of domestic traditional products and souvenirs; fostering the implementation of energy-efficiency projects and development of energy management.

- **Threats**

Incomplete technical infrastructure of tourism modern requirements; inefficient communication and information system in tourism sector; competition from international tours to domestic tourism product; inexistence of modern technologies for controlling the operation of transport system; inadequate monitoring of chemical composition of waters in the rivers; contamination of rivers with sewage waters, domestic and agricultural-industrial waste; natural disaster; insufficient investments for reconstruction of tourism infrastructure; lack professional personnel with good command

of foreign language; lack of coordination between the state and private sectors; insufficient knowledge of tourism market for regulation of demand and supply; supply of unvaried products; weak management; negative international views on safety of travels to Georgia.

#### 4. Conclusions

Our analysis showed that the number of tourist firms which successfully work on receiving tourists is very small. There are the following preventing causes which are to be taken into consideration:

- National heritage tourism tours, as a rule, include only one particular site. No one tries to make any changes and introduce innovative methods. A lot of impressive sites are ignored by tourist firms and, therefore, remain unknown for tourists.
- The state is reluctant to make recommendations for tour operators, to make a list of monuments and provide them with relevant information. There is no connection between the state and private sectors.
- Some streets and squares are named and numbered (marked). There are no regulating norms (instructions, rules) set by either state or local self-government. Sometimes, there are no signs with names on most streets and squares, or the signs are put up according to the owner's wish, or, in some cases, the names are only in Georgian, which is quite uncomfortable for tourists.
- Tour operators don't do their professional work to create new tourism routes, as this kind of job is not quite profitable for them.
- Tourism advertisements are ineffective, no one cares about the quality of presentation and souvenirs. No one conducts a research to find out what is in demand and whether it is provided to the society.
- The museums found in municipalities and villages in surrounding area are not included in cultural heritage tourism, there is no programme or plan to use them.

Based on the above-given information, we can conclude that geographical location, natural and historical-architectural monuments, folklore and hospitality traditions of Kutaisi are a firm basis of its tourism potential and, in the conditions of relevant support and sensible policy, Kutaisi

tourism can develop into one of the most important centres.

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## Feedback as an Main Instrument of Management<sup>i</sup>

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### Abstract

*The feedback mechanisms, through their ubiquity, veracity and dynamic, are part of a useful instrument at any manager's hand. Combined with the informational systems these increase their importance by becoming the main vector of a managerial system capable to generate results, to introduce the novelty and to motivate the creativity.*

**Keywords:** feedback, poll, managerial system, informational systems.

**J.E.L. classification:** D830, H830, M150

### Introduction

The feedback represents *the retroaction that manifests at the level of different systems (biological, technical, etc.) with the purpose of maintaining their stability and equilibrium to the external influences; reverse retroaction, reverse connection, circular causality, closed causal chain* (DEX 2009:437). The direct connections and interdependences or mediated existing inside an organization, obviously seen as a system, causes the application of some control, adjustment or self-regulation mechanisms – of feedback, that have as purpose a positive evolution of the development activities on all the organizational levels. These mechanisms develop under the shape of some dependence causal loops induced by the diversity of situations generated during the specific processes of the system. The feedback is specific to any action, is well target, well applied, minded, and realistic and should bring improvements. The feedback is a tool used frequently, conscious or not, both in personal activities and in the professional ones, in different grades to assure the needed equilibrium for the efficient work of the

social or economic systems (micro and macro) defined by those activities.

The transformations of the modern society lead to transformation at the methods' level and the addressed models at decisional level in an organization. In this process the feedback mechanisms' role gets importance through the generated results in these complex systems by avoiding the internal or external disruptions, meaning by adjustment, stabilization and maintaining of the equilibrium status of the entire system. The feedback is not an instrument of the modern manager. The variables that occurred along the time in the managerial system lead to changes, mainly, in the way of giving the feedback, from the unidirectional model (based on one source) to the objectives feedback model. These changes apply in what regards the purpose, the process itself and the source. In 1991 the Creative Leadership Center in its works *Feedback to Managers* launches and imposes the notion of multisource feedback, which involves a manager whose efficiency is based on a vertical and on a horizontal feedback, method that offers learning and continuous development opportunities. The feedback itself means learning, meaning the manager's and organization's capability of understanding the strong points and of improvement of the weak ones, in evaluating and to harness the performances and to offer a higher grade of satisfaction in personal plan (financial motivation) and in professional plan (working conditions, promotion possibilities, etc.). The feedback represents *one of the foundation stones of an organization (Focus on formative feedback, Shute, 2008).*

The managerial activity assumes the correct evaluation and management of a bigger number of information in short time. The implementation and use of the technological resources regarding the

optimization of the information flows from an organization or of the one destined to the external environment represent one of the constant concern of the actual management. So, it is necessary the construction of an integrated informational system which responds to the organization's needs through total capitalization of the obtained information.

The information is the main pylon of the managerial activity. In the decisional conception, the feedback is assimilated with the delivery of the evaluation or corrective information needed to the adaptation and selection processes, to the definition of some efficient strategies and is controlled the intensity of the inter or intra organizational flows. The main consequence of the send information by feedback represents in the inducted influence over the motivation and consistence of the decision makers. Starting from the actual concept according to whom *the technology is the new manager* - Lynda Gratton, 2011, considers the feedback as a part of the management informational systems which sustains, helps, hurries and gives consistence to the decision. Through the technology you can monitor better the performance, can give reports in real time and consecrate to a certain type of receiver/beneficiary. Therefor the feedback makes the informational system become responsible of producing and orientating some useful information, with efficiency, at managerial level.

### **The research methodology**

The purpose of this research is to analyze of some general and particular issues of the feedback, as a binder of managerial leant of the managerial communication and vector of the informational streams improvement in developing the capacities of the managerial informational systems. The review took in consideration the managers' activity and the role of the informational system in generating a feedback of whose results are to be felt in the efficiency of the work and the facility and correctness of the taken decisions. The study had as objectives:

- The review of the managerial communication through the feedback;
- the review of the information's flow inside the organization by recognizing

the role of the feedback, starting from the next hypotheses of research: I – the managers have real preoccupations (with the help of the informational technologies) for the organization an perfection of the communication process; II – the organizations benefit of well thought programs/ informational systems which must generate a right feedback;

The quantitative empirical research has been made through polls and the collection instrument of the data was represented by a questioner with closed questions. The questions had been made so they can focus on the general problem regarding the feedback and its role and customization in the sanitary units as regarding units. The research unit is established as being the person, manager an employee, no matter of the gender. The answers quantified by percent and at the extra request they have been classified in values from 1 to 4, using the semantic differential, the four steps option.

The collecting period was between 2015.03.02 and 2015.05.01.

The questions from the questionnaire have been grouped on two levels, one gathering general considerations about the feedback (1-5), the other about the role of the informational systems in making a feedback (6-11). I've chosen this way because we considered it was necessary to highlight and the general knowledge of the respondents regarding the feedback, the confusions these make and the influence of these unclear in the specific answers. The questions were:

1. What is the feedback? How often each person from the organization should receive feedback? And also who should offer it?
2. How do you consider the feedback should be given between departments? And inside them?
3. Do you know the difference between feedback and critics?
4. Do you think there must be followed some models to offer feedback?
5. Do you think that the positive feedback is preferred to the detriment of the constructive one or vice versa?
6. The technical support in the institution you work in can satisfy the demands of the informational system's work for an efficient



feedback – is about the feedback offered by the informatics systems, management free?

7. Which is the best informational way so the received feedback has a reduced alteration grade?
8. Which is the best way of sending the information depending on the hierarchy, confidentiality, time, cost, distance, existing preceding, etc.?
9. Is the feedback a main characteristic of an ideal way of MIS in the information flow's circuit suitable to the institution from which you are a part?
10. Do you consider that the insertion of MIS in your institution generated positive changes in the administrative/ decisional process from the perspective of the information's analysis through the received feedback?
11. As your institution develops what should be maintained or changed in the MIS implementation strategy? Is the feedback seen as a reference point in the MIS development and function?

### **The results of the research**

The study was made in the sanitary units in Bucharest where the questionnaires were distributed. It was taken in account that in every unit to exist a minimum number of 30 questionnaires so that it can be a relevant research group. A part of the questionnaires (10%) were send by email on the institution's official address, the rest of the questionnaires were divided personal. We chose this solution because some categories of personnel have an easier access to email; we created three ways of segmentation: medium age, gender and study level. As follows:

- The medium age of the study's respondents is of 49 years
- The distribution by gender showed a bigger share along the feminine persons, the proportion being of 61.78% women and 38.22%
- The study level reveals o bigger category of high school and graduated alumni 69.14%, 14.65% with medium studies and 16.21% with university.

### ***The answers' review***

#### ***a. General issues regarding the feedback***

##### **Question 1**

We considered it is opportune to find the subjects' opinion about what is the feedback, the frequency with which it must be received and sent. The answers focused, in their majority, around *any time it is needed*. Deepening this remark we tried to define this *need* which in fact it represented a certain type of compulsoriness (decisions of the manager or direct boss, the requirements of the informational systems) of the respondent regarding his daily work and the frequency with which the feedback must be received and send has no connection with every employee. Therefor a number of 64.34% relieve of the compulsory of sending the feedback (individual) and do it only when they are asked to.

A percent of 21.11% consider that the feedback depends on the cyclicity an relevance of the events and a percent of 11.05% consider that the feedback should be sent and received permanently, formal or informal – data, solutions or just rumors and gossips, and a percentage of 0.5% consider that the feedback is not necessary or do not understand its role. The review of these results show the deficiency of the communication form the upper levels to the inferior ones, the effective and permanent disengagement of the personnel in exchange of information on different levels – and, implicit, a demotivation of the personnel – as well as the hard role of the middle-management as a connection between those. Also, it can be rumored the fact that the managers wish to receive a more complete feedback – inclusive in its informal option – of gossip or rumor, with the purpose of defining some decisions regarding the well of the organization, even if it does not offer the same opening.

##### **Question 2**

By this question we followed to find out how the respondents consider the feedback works (who gives it, how it is received, it has efficiency) inside the same department or between departments, no matter if these are in a horizontal or vertical relation.

The received answers show that a big part of the respondents (47.81%) realize that the intra and interdepartmental relations are conditioned by the feedback, that, in these conditions, it must be respected the informational systems' linearity, and the relations to be bilateral. A percent of 13.54% succeeded to identify and the diagonal communication – in the case or using the management through projects – with advantages in the time and cost economy by using some informal feedback relations.

There still is a significant percent of respondents (31.44%) that do not identify the feedback in the interdepartmental communication process, although they consider that it should be given bilaterally. An insignificant percent (0.86%) refuse to offer feedback, intra and interdepartmental, arguing that they deliver their tasks and that is what is should be known.

### **Question 3**

It has been chosen a question that can highlight the respondents' capacity of making the difference between the feedback and the criticism. More than half of the respondents (55.21%) didn't knew to difference the feedback from the criticism. This ignorance decreases the power of the feedback that comes from its capacity to recover, to maintain a good status or to change an action, a behavior. The feedback allows the receipt of a constructive answer and it refers to the action itself, that is way it different in the criticism fundamental way. Even the negative feedback regards an action, not a behavior or a fact.

There was and a percent of 17.37% that knew the fundamental difference between these two concepts but, surprisingly, the majority of those weren't among the ones with leading functions.

The analysis of this answer takes us in the same zone of promiscuous, both of the employees and of the managers, which do not understand the importance of the communication in the efficiency of the information flows and of the decisions and of the consequences of this decision.

### **Question 4**

By this question we tried to find the respondents' position regarding the positive and constructive feedback. After analyzing

the results it was observed that a big number of respondents (51.02%) considered that the positive feedback should be used in detriment of the constructive one. The respondents' reporting mainly to this kind of feedback is seen as the respondents' need to permanently be recognized their merits, without considering that this thing may destabilize the system by one way developing, by stagnation and collateral effects. The constructive feedback is seen as a critique not as a correction measure of some deficiencies. A small percent (16.21%) – represented mainly by the managers, consider that the constructive management is more efficient, preferable to the positive one, but they admit that its use is at least sensible at communication level. A percent of 32.67% did not make the difference between the two types of feedback.

### **Question 5**

As a last question form the general issue rose by the feedback, we chose to find out the subjects' opinion about the use of some models for the efficiency of feedback sending. A high percent among the respondents (64.23%) considered that this problem – of establishing the feedback's circuit and flow – depends on the managerial decision and in consequence of some patterns (fixed, meaning well implemented in the organizational process) developed by those.

A percentage of 17.77% identified the informational systems as support for feedback's transmission optimization on all the known directions, without making a clear difference of the types of systems that should be inserted. A percentage of only 16.3%, but significant among the ones with leading functions, understood that the informational systems are the main ways of transmission and optimization of the feedback, but identified the management informational systems as the pawns of a constructive harmony development between the managerial decision and the theoretical, efficient models of feedback.

#### ***b. Specific issues***

### **Question 6**

A first question from the category of the strict ones regarding the units where they work challenges the subjects to identify the

technical support from the their institution and to highlight if this satisfies the demands of the informational system’s functionality, for an efficient feedback. Their attention was attracted that it was about the complete informatics systems, independent from the management.

The majority of the respondents (73.1%) consider that the technical support is old, inefficient and is not present at all the levels. The cause is the poor financial, without accent on this kind of projects, a low training of the ones that use it and an unequal insertion, at decisional levels.

A percentage of 12.8% consider that the technical support is enough, that it satisfies the primary needs of the users and that this can assure a minimal flow of data and o correct distribution of the feedback. A percentage of 9% consider that the technical support exists, that it is efficient, but the funds allocation should be made in the upgrade domain of the used soft.

#### **Question 7**

The respondents were asked to identify the optimal informational route, so that the received feedback should have a low alteration grade. As the human part is the one that can produce instabilities in the system, a percentage of 81.39% considered that the informational route depends on the complexity and the accuracy of the informational systems presented in institution and of the implementation at inter institutional level of similar systems or of some complementary ones. A very small percentage, of 9.6%, considers that the received feedback, especially the informal one, must not circulate through the informational systems that are *without life* because *it remains there*. Is about the feedback perception, different from person to person, but whose consequences are felt in the group’s harmony.

#### **Question 8**

Regarding the best way of sending the information regarding the hierarchy, confidentiality, time, cost, distance, existing preceding, a percentage of 36.95% sustains that the efficient informatics systems are the ones that optimize these requests, but most of them highlight and the middle-manager’s role in the vertical communication, implicit

in the obtained feedback. On both limited positions – management and execution – is expected from the middle managers to work without precise directions, to have o very good understanding of the processes and to communicate efficiently, giving a value pulse to the information flow and to the received answer.

A percentage of 32.31% sustain that there is a poor communication between the executional and the executive parts, communication that exists thanks to the use of these systems that are not inserted al all the levels in all the departments. This absence must be replaced with the direct, personal communication of the feedback, decisions and of the results.

#### **Question 9**

The next questions regarded and the MIS analysis in the evidence of an information flow accelerated by the feedback.

This question brings in discussion the feedback as a main characteristic of an ideal MIS model to highlight the understanding of the feedback’s importance as a component of MIS in the decision’s elaboration and implementation.

A percentage of 37.86% considered that MIS must have the feedback as component of the structure and to analyze and offer integrated and efficient solutions. They consider that the management informational systems would be incomplete without this characteristic, sustaining their development on this segment. A percentage of 32.7% considers that the feedback, in its complexity, can’t totally depend of the informational systems, even if these are totally dedicated to the management, considering that the personal and emotional involvement of the manager cannot be replaced by some patterns, even if they are ideal, in sending the information and valorization of the feedback.

A percentage of 7.23% considers that MIS are inefficient and the feedback must exist more on personal plan. These answers indicate a superficial understanding of the feedback phenomena, considering that this represents just a remark on personal plan, excluding it as a part of their personal activity.

**Question 10**

A percentage of 41.7% considers that the implementation of MIS brought positive changes, per total, in the institutions where they work, influencing the manager’s communication with the subordinated structures and the implementation of some interference decisions with systems with some institutions. These consider that MIS led to a more realistic perception, more correct about the system’s problems and of the personnel and of the given feedback.

A percentage of 30.35% considers that the received feedback is not a consequence of the MIS’s implementation, but more a transformation of the manager towards the professionalism, that everything depends on the person and not on the system.

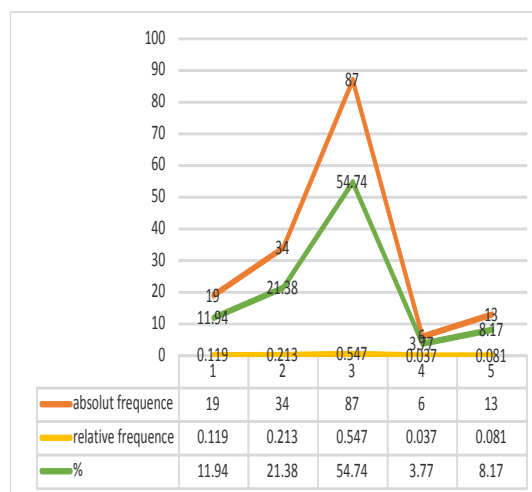
**Question 11**

As a last question we wanted to know if the feedback is seen as a reference point in the development by the specialist of some strategies and some new types of MIS. A big part of the respondents (68.91%) considers that the feedback is not a reference point in the development of some managerial strategies and new MIS, being entrusted that the decision makers will apply the optimal models of data flows implementation and of the feedback, just for the grounding of some decisions that help the institutional development, the medical act’s professionalization, the professional development and the assurance of a sure and attractive working climate. A percentage of 26.4% is not expected that the new MIS development to change the old conceptions of the managers and their way of communicating.

Answer	Note attributed	Absolut frequency	Relative frequency	%
least important	1	19	0,119	11,94
less important	2	34	0,213	21,38
important	3	87	0,547	54,74
very important	4	6	0,037	3,77
without answer	-	13	0,081	8,17
		159	1	100

The respondents were asked to evaluate and the role of the informational systems in feedback spread in the order of importance, from 1 to 4, meaning from *least important* to *very important*.

According to our respondents’ appreciations 54.74% consider as *important* the informational system in the spread of the feedback as being efficient, 21.38% classify it as *less important*, 11.94% as *least important* and 3.77% as *very important*. A percentage of 8.17% did not answer to this study



**Conclusions**

The comportment and the performances of a person can vary regarding of each assessor’s statute. In actual organizational context the focus is on communication, team work performance, but all these are conditioned by the propagation quality and time of the information. The behaviors and situations evaluation, independent of the results and the person itself, opens the way to understanding the profound causes of the performance, actions and of the own experiences and expectation reflected in the case of managers by correct evaluation, and in the case of the employees by stimulation. The development of the informational technologies and the way they are used by all the members of an organization require permanent communication of the expectations and so it is generated, voluntary or not, the feedback. The feedback through its effects helps at the right position of each

one inside the organization, at understanding of its role and importance.

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## The Road to Competitive Advantage must be Paved with a Respectful Attitude towards the Environment

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### Abstract

*The role of economic entities in society has changed as a result of the emergence of environmental concerns among people. Currently economic entities are facing a new challenge, that of introducing environment variable in its activities. The paper deals with new environmental assessment of the effects on competitiveness and how we can transform the environment into a competitive advantage. The current concern, social and institutional environment protection has led to pressure on economic entities to adopt a much more respectful of the natural environment. This is a challenge for managers entity. However, it is clear that regulations and legislation are not enough to stabilize the situation. Change must take place in the business. In conclusion, we must be aware that the road to competitive advantage is difficult, full of obstacles, and be paved with a respectful attitude towards the environment, but at the other end sees business sustainability.*

**Keywords:** environment, environmental management, competitive advantage, environment variable, business durability;

**JEL classification:** M41, M48, Q56, Q51 Q20 N27.

### 1. Introduction

People live in communities that are part of society, economy and environment. Expectations of community members, from this, are very important and significant as a

healthy and productive life. The economy is only one part of society. On the other hand, society exists only with the environment and, despite occupies part of increasingly larger environment - both socially and physically, it will never be greater than the environment. The fact is that without air and water, there would be no society.

We note, however, that the existing population uses more resources than nature can replace and it is only a matter of time until the situation will become desperate. Although serious concerns about this issue are increasingly more often debated in terms of sustainability in different fields, most often the subject remains problematic stage, without practical purpose for various reasons, the first impediment mentioned being the financially .

### 2. Company and environment

Concern for the environment has spread and entity level. Traditionally, ecology and organizations were identified as two independent concepts and realities. Ecology, in accordance with the original definition given by Haeckel in 1868, is part of biology that studies the relationship between living organisms and their environment. Thus, ecology is understood as a specific science of the environmentalists, close to the vision Economic Sciences and Management.

For economic entities, the environment they are studying ecology is simply the physical support organization that provides resources to develop productive activity and receiver of waste is generated during the process. At no time traditional approaches have not shown the effects that such use could have on the natural balance.

The Industrial Revolution had a significant impact on our society and the environment. Accelerated industrial development has led to inefficient use of

natural resources and the release of huge amounts of pollutants into the atmosphere. The serious consequences of these activities began to appear in scientific reports and gradually became part wide open public debate [1].

The current concern, social and institutional to the environmental degradation has led to pressure on economic entities to adopt a much more respectful of their natural environment. Companies have been forced by circumstances to invest in important budget "environmental protection" to fulfill government regulations.

Only very recently, companies have realized that a successful business does not necessarily have a negative impact on the environment and society. Long-term profitability rose thanks to environmental and social practices such as eliminating pollution and positive relations with the community.

Although achieving sustainable development, involving the whole of society, economic entities play a fundamental role in achieving it. [2] Not surprisingly, the production processes of economic entities are responsible, together with population growth and behavioral habits of citizens, to be the main cause of the rupture balance of ecosystems.

The actions directed towards achieving sustainable results requires a comprehensive and long-term thinking, such as: maintaining constant awareness of people's needs now and in the future; personal and business development strategies in actions aware and not directed to the "use" of existing environmental nature reserves, natural capital on which life itself depends.

Sustainable business strategies and perceived to be characterized as a continuous and systematic effort in seeking solutions, socially and environmentally responsible, economically feasible in the long term [3].

For example, reducing the effective use of energy and raw materials, not only brings financial benefits, but at the same time increase welfare such practices, in terms of environmentally and socially.

Sustainability is an issue widely debated companies and analyzing all aspects is much broader and over the scope of this report. Even if economic, social and environmental impacts are interrelated, the main focus of the

analysis will be on the natural environment.

According to Klassen and McLaughlin, environmental management includes all efforts to minimize the negative impact of the company's products on the environment throughout its life cycle and that leads to maximizing the welfare of a community.

Given this new context, enterprise economy became interested in recent years, the relationship between the environment and the company, proposing a new approach to various business theories in order to incorporate ecological variable. Under this new approach, the fact remains that the company acts as agent in charge of producing goods and services required quality of human life. But it is also true that quality of life can not be achieved without preserving the environment in which man develops as quality of life and environmental quality are two sides of the same coin.

To understand the relationship between the firm and the environment must be accepted that the company is an open system, as determined by systems theory. However, traditional interpretations of the theory of the firm as a system, has led to some partial view of the effects that the company generates its environment. Economic entity is an open system, it is made up of a set of interdependent. This is an open system because he was in continuous relationship with its surroundings, being influenced by them, but in turn influences. However, the effects that they generate economic entity in its environment, not just economic and social character, also of the environment, not just positive also negative. Generate goods and services, employees, dividends also consume scarce natural resources and generate pollution and waste. It is therefore necessary that enterprise economy to define a broader perspective of the economic entity, as an open system, taking into account that the company contributes to environmental damage for three reasons:

- Entries consumption, as part of its limited natural resources at a rate that exceeds their rate of regeneration;
- Generate, as part of its output, emissions and waste contaminants to a level higher than the rates of assimilation of nature itself;

- The marketing of developing marketing activities that can encourage (consciously or unconsciously), excessive consumption by the public, leading to a new natural resource consumption and new emissions and waste..

### **3. The environment, a source of competitive advantage**

Although the first wave eco began in the 70s, since the second half of the 80s, concern for the environment has grown rapidly in society. Today, 50% of people consider that environmental degradation is a serious or very serious problem that requires urgent action. But we must distinguish between of thinking and say what is right and actions.

Ecological movement, like many other social movements, have an impact on the business environment. The business, which has undergone significant changes: the emergence of environmentally responsible consumer, to develop stringent environmental legislation, by social and environmental behavior of the entity. In short, it is a turn that requires the entity to project its objectives, taking into account its social and environmental dimension, to complement the economic dimension.

Thus, managers can not close our eyes to this changing environment if they want to maintain the competitiveness of its companies [4].

For some authors, the environment is still a general factor, which should be considered together with traditional analyzed four factors: socio-cultural, political and legal environment, the economic and technological environment. For others, it is not necessary to talk of a new environment, but environmental factor that is incorporated into the traditional four factors.

Thus, the technological environment should be analyzed emergence and spread of clean technologies promotional programs on the environment [5]. The political and legal environment should be analyzed, inter alia, various environmental legislative measures. In economic measures should be examined financial and fiscal measures taken by governments to promote environmental improvements and socio-cultural environment, attention should be focused on awareness and education of the population on

different environmental issues and their behavior reaction to various environmental marketing strategies that can be adopted.

In my opinion, in a way or another, what should be clear is that the environment should be introduced into the company's strategic thinking to become a fundamental part of business.

### **4. Assessment of the new environment on competitiveness**

In assessing the effects it generates this new environment on the company, some managers have adopted a negative approach. The position shall be deemed to include corporate environmental management involves a loss of competitiveness. The environment and the company can not benefit simultaneously. Environment is a cost to the company: taxes, fees, licenses, investments in production equipment change, emissions control, installation of filters anti contamination, environmental risks insurance and much more. [6]

However, this approach seems to be very limited strategic perspective [7]. Indeed, changes caused by environmental factors will change the performance of the company, from corporate strategy to various functional strategies, but its effect is similar to other characteristics of current business developments, here are (globalization of the economy, development of information technology, increasingly high level of culture of the population, free time available to women working environment, aging, decline of family unity, and the list goes on ...).

The company competes in a global competitive environment characterized by uncertainty, dynamism and complexity. Strategic direction that develops, will be responsible for adapting to changing economic entity that produces, trying to turn a dominator environment, in an environment dominated. The company's strategy will be responsible for trying to turn risks into opportunities, to adapt as quickly as possible to the environment [8].

In conclusion, the environmental factor adversely affecting economic entities, slow or simply does not react, but positively affects companies that adapt well.

In my opinion, this new environment leads to the emergence of new competitive



advantages that can be exploited by those business entities who understand the importance of taking advantage of this opportunity.

On the other hand, there are positive approach, where search benefit for the environment, does not harm the economic entity. Overlapping environmental and economic objectives is much more than you might think at first glance. It is possible to achieve mutual benefit. Better environmental performance of the company, can lead to an improvement in its competitiveness. These are called win-win-win situation. While the company takes to maximize their financial goals and satisfy the customer takes the product needs through economic entity comes beneficiary environment by minimizing the impact caused [9].

This improvement can occur both from the supply side (through higher productivity) and the orientation of demand (through product differentiation) [9]. Thus, by:

A. Improving productivity as a consequence of possible cost savings. Similarly quality management, environmental investment and cost increases derived from adapting the company's product and more stringent environmental criteria (prevention costs) can be amortized by saving the following costs:

a. Costs of waste: caused by improper use of resources;

b. Legal Costs: both those derived from the legislation in force and costs arising from non-compliance (sanctions, compensation, etc.).

c. Costs due to loss of image: a negative image of the company's behavior towards the environment can lead to a rejection of its products by customers. According to a study by the Environmental Foundation, 78% of people would not be willing to buy a product if they know that the manufacturer will carry out practices that harm the environment, compared to 10% who would.

Therefore, we can say that investing in prevention of environmental impact (costs of environmental quality) can offset the costs of non-existence of environmental quality (fines and penalties, fees, costs of restoring damage or cleaning, insurance risk coverage environment, ...).

B. Product differentiation. In the same way as quality, brand, packaging, value-added services, etc. are means of differentiation, environmental attributes of the product or packaging or image of environmentally conscious company also can become capable of distinguishing the consumer segment, the environmentalists, who are increasingly more. These consumers are willing to prefer an equal price and quality, a brand with ecological attributes, compared to competing brands or even pay a premium for it. Therefore, the environment can be beneficial to economic entities by creating a corporate image / organic product created by the implementation of a credible marketing strategy, which is known marketing efforts made by the economic entity, in terms of environmental protection.

Creating this image of economic entity that respects the natural environment is highly valuable, not only to potential customers, but also to other stakeholders in the company, such as:

a) current and potential employees, who are beginning to question the responsibility for the pollution generated by the company;

b) public bodies, that begin to incorporate environmental variables in procurement and tendering processes work;

c) potential investors, because more and more people looking to invest their money in compliance with ethical values;

d) financial institutions that have started to incorporate environmental considerations in the process of granting credit.

## **5. How can we transform the environment into a competitive advantage?**

If years ago appeared the concept of total quality management, environmental management must be discussed now total quality [10]. In both cases, the short-term economic entity has to do with increased investment and a possible increase in operating costs, medium- and long-term higher profitability is achieved.

As can be inferred from the above, to qualify for a win-win-win economic entity must adopt a proactive and not defensive attitude towards the environment. Economic performance of the defensive attitude focuses

on short and lead to corrective measures of the impact caused on the environment by measuring the so-called end of the pipe. In this approach, it is clear that the new environment leads to an increase in costs to the entity and not a source of competitive advantage. In addition, in terms of the environment, the problem is usually eliminated, but is transformed or moving in time or in space.

On the other hand, has a proactive attitude and long term drift resulting from the adoption of preventive measures, avoiding the production of an environmental impact at source using the best available economic technologies that attempt to correct or minimize, as which generated. [11] Thus, it is preferable to redesign products, processes and functional structure of the entity by implanting gas filters, waste water treatment plants or soil remediation.

In this regard, the equivalence of quality management and environmental management, can be presented as follows:

- ✚ Quality Control - Environmental Management;
- ✚ Quality management system - environmental management system;
- ✚ Inspection at end processes - Control "at the end of the pipe";
- ✚ Withdrawal of the product - Cleaning ecological disaster.

## 6. Conclusions

Concern for the environment has spread to developed companies, constituting a new competitive environment that can not be forgotten by the company manager. Taking responsibility for improving the natural environment manager could appear as an ethical issue, but also must take into account a possible source of competitive advantage. Environmental management can provide an improvement in competitiveness, both through productivity and differentiation path. The strategy to be followed towards the environment, depends on how specific environmental factor affecting the environment and the company's own resources and capacities.

Importance is given to environmental variables in business strategy can vary considerably from one company to another, in the same way that companies can adopt

various degrees of interest in quality management. Although the environment may be the source of competitive advantage include entity management environment in a specific situation depends on the environment of the establishment (not all companies and sectors are affected equally by the ecological environment) and by the organization (of resources and capabilities her). Even when desired, it is possible that the entity may have difficulties integrating the environmental factor in the management entity for various reasons such as the inability to access the necessary capital investments to improve the environment, lack of information and technical knowledge on issue, staff attitude and lack of real commitment of top management.

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## Assessing the Degree of Customer Satisfaction Regarding Food Services Quality in President Restaurant of Mangalia

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### Abstract

*Improving quality is an essential objective of any service, in order to increase the efficiency of financial-economic activity, of competitiveness on domestic and foreign market. In the services industry, between productivity and profitability lays a close connection that can not be ignored. When consumers will realize quality differences of services offered to them, these differences will be reflected in the economic profits of enterprises providing tourist services. This work, is carried out to assess the quality of food offered by the Restaurant President of Mangalia, through SERVQUAL indicator, a special instrument of total quality management. Requirements in matters of service include quality in the perspective of its human and personal dimensions, often intangible and apparently difficult to measure, assess and quantify. However, certain elements of the service are quantifiable such as waiting time, frequency of service, number and nature of the services included in the price, etc.*

**Key words:** quality analysis, food services, quality improvement, customer satisfaction

**J.E.L. Classification:** L<sub>83</sub>

### 1. Introduction

Competitiveness, defined as the ability of companies to face competition is the essence

of a good market dapper; a means of competitive success in an environment in which firms always try to pass one before the other by reducing prices by higher quality products and their current services and creating new ones. Quality is a new philosophy of strategic management company based on the primary objective of management and employees, and satisfies consumers and continuous improvement of products, production and services. Moreover, this capacity may be achieved by improving product quality and innovation - both aspects are very important in competitive. [1]

Achieving quality is a difficult problem, especially in services where, in addition to other factors involved and behavior. Quality control must not become an objective in itself but a means to improve service quality and thus competitiveness of company. There is thus a circle of quality, meaning that a high level of quality customers and clients requires a greater quality.

Improving quality is the purpose of quality management, is a perpetual process of making performances, activities specific tending to total quality designed to meet fully the requirements of customers or users. Quality improvement is part of quality management, focused on increasing the ability to meet quality requirements.

### 2. Particularities of food services quality assessment

Economic activity in the services industry

and the hotel restaurant, differ in many respects the activities in the industrial production of material goods. As such, the profile and performance, organizational structure, perceived quality of business services will differ in many respects from those of enterprises producing.

In the strict sense of the quality characteristics, initially identified the following dimensions of service quality: reliability, response capacity, competence, access, communication, credibility, security, understanding / knowing the customer, tangibility. Subsequently appealed to the six characteristics of quality services, namely: tangibility, viability, capacity of response, assurance, empathy, service revalorizations causing dissatisfactions customers. [2]

The significance of these characteristics can vary considerably, depending on the nature of services and users, so that, in assessing the quality of services, the share paid depends on various characteristics of spatial and temporal coordinates of each concrete service.

In general, service quality involves a rule, a comparison between services provided and expected by consumers.

### 3. Research method used and setting of sample

Criteria to be taken into account in assessing the service are criteria established by customers. Expectation customer knowledge is essential both for planning and for quality assessment. In fact, there is satisfaction when the perception of the service will be at least equal, with expectations that there will be about them. Succeeding in this correlation and even if the perception would exceed expectations requires obtaining the high quality services [3].

For services that are already in a state of progress, quality planning get an assessment of customer satisfaction, on a number of factors that enable service development of new targets for improvement. It is therefore clear that the planning, evaluation and improvement is closely intertwined forming a single process: improvement.

Measurement of satisfaction is subjective and is based on the implementation of surveys and questionnaires. Key issues that

must be met are:

- importance given to each of the factors that characterize the service, and therefore should be a sort of them, given to some "notes" depending on the value that each customer has;
- evaluating each of these factors, when it is received;
- the overall assessment of service, meaning an analysis on it without a distinction between its various elements.

This study aimed at implementing a survey to measure satisfaction of customers in order to improve the quality of food whose results can be materialized through a series of proposals / measures to be applied to improve the quality of services.

In the present research, the sampling method chosen was the non-random one. It was started from the premise that:

- the number of tourists staying in the President Hotel from Mangalia over the period 1<sup>st</sup> to 30<sup>th</sup> March 2014 was 280;
- among these only 95% of them have received food services in the President Restaurant;

It results that the number of customers who received all inclusive food services was:  
 $280 * 0.95 = 266$  customers

Customers were grouped according to the share of each customer segment, in the total of customers who purchased food services in President Restaurant (table 1). In order to obtain the sample I have extracted a percentage equal to 70% of each group of customers which resulted in a sample of 187 customers that belong to the three groups.

Table 1. Sample setting according to the share of each customer segment

Segment of clients	Percentage of total customers segment	Number of customers	Sample 70 %
Customers who received food services only breakfast	20.3	54	38
Customers who received half board food services	48.12	128	90
Customers who received all inclusive food services	31.58	84	59
Total	100%	266	187

Source: Data processing based on sampling

method taken from Cătoiu, I., et. al, 2002

To this end was chosen two questionnaires, one for identifying expectations customers on the quality of food, and second, to identify the degree of perception of quality of food analyzed. Items included in the two surveys to assess expectations and service food quality (table no. 2) were evaluated on a scale from 1 to 7.

*Table 2. Items analyzed in the evaluation expectations / perceptions about the quality of food service*

Item No.	Item	Item No.	Item
I <sub>1</sub>	Training of staff	I <sub>10</sub>	Rapidity in serving
I <sub>2</sub>	Provided courtesy	I <sub>11</sub>	Promoting the attractiveness and efficiency of supply of dishes and drinks
I <sub>3</sub>	Ease of communication with staff	I <sub>12</sub>	Aesthetics of meals and beverages offered
I <sub>4</sub>	Advice, where requested	I <sub>13</sub>	Quality of meals and beverages
I <sub>5</sub>	Provide individualized attention	I <sub>14</sub>	Building menus depending on culinary and gastronomic peculiarities of other nations
I <sub>6</sub>	The frequency of errors of ethics and / or technical services	I <sub>15</sub>	Organization and equipment serving dinners
I <sub>7</sub>	Modern equipment and furniture	I <sub>16</sub>	Organization of room service
I <sub>8</sub>	Ensuring hygiene personnel serving the area and items of inventory	I <sub>17</sub>	Confidence conveyed by the quality of customer services
I <sub>9</sub>	Environmental conditions provided	I <sub>18</sub>	The price / quality ratio of the services offered

Source: Data processing based on Servqual instrument taken from Moldoveanu, G. and Dobrin, C., 2006

Both questionnaires were applied on a sample consisting of 187 persons. 40% of the respondents to the questionnaires used are female, while 60% are male. Analyzing the age structure of people respondent, found that 30% of respondents are between 18 and 25 years, 36% have had between 26 and 40 years, 14% were between 41 and 50 years, and the difference of 20 % are past 50 years. Structure of the citizenship of people respondent is 58% Romanian and 42% foreigners.

The method used was the statistical survey and the instrument chosen was represented by the written, semi-structured questionnaire, filled in by the respondent. [4]

#### 4. Analysis and interpretation of results

Results obtained under these same respondents' two questionnaires (table no. 3) were analyzed by semantic differential

method. Weighted arithmetic mean (Map) of expectations obtained from the analysis is 6,024, and the weighted arithmetic mean of perceptions is 5,027, indicating a favorable image of the establishment of nutrition among consumers. Quality of food services provided in the organization will be the difference between perceptions and expectant, as expressed through Perceptions Index Quality Service (PIQS).

$$PIQS = \frac{\text{Weighted arithmetic mean perceptions items}}{\text{Weight arithmetic mean expectations items}} = \frac{5,027}{6,024} = 0.834$$

*Table 3. Media of expectations and perceptions on each item analyzed*

Item	Media of expectations	Media of perceptions
I <sub>1</sub>	5,607	4,760
I <sub>2</sub>	5,933	4,640
I <sub>3</sub>	5,620	5,133
I <sub>4</sub>	5,787	4,720
I <sub>5</sub>	5,813	4,980
I <sub>6</sub>	6,033	4,433
I <sub>7</sub>	6,033	5,133
I <sub>8</sub>	6,813	5,420
I <sub>9</sub>	5,787	5,253
I <sub>10</sub>	6,293	4,647
I <sub>11</sub>	5,813	4,400
I <sub>12</sub>	6,160	5,233
I <sub>13</sub>	6,020	5,949
I <sub>14</sub>	5,867	5,533
I <sub>15</sub>	5,607	5,200
I <sub>16</sub>	6,160	4,960
I <sub>17</sub>	6,713	5,113
I <sub>18</sub>	6,367	4,987
M <sub>ap</sub>	6,024	5,027

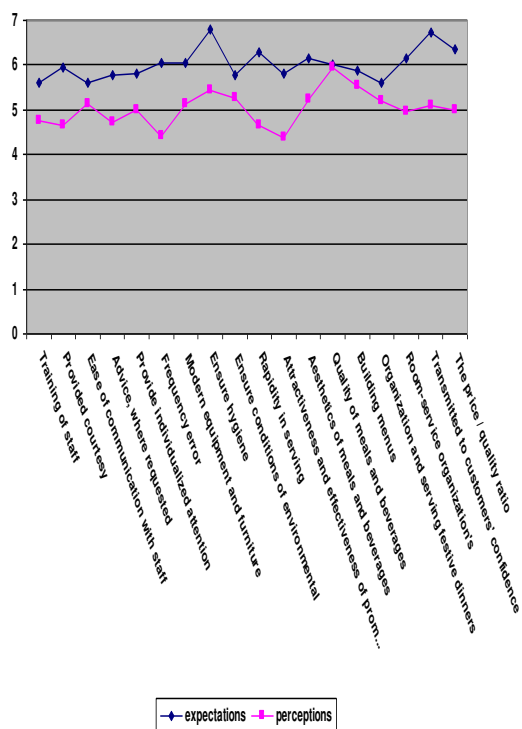
Source: Data processing based on evaluation of Customer Reviews

Graphic representation of the image analysis unit of food among tourists is shown in Figure 1.

The largest discrepancies between perceptions and expectations were recorded in terms of rapidity in serving, customers trust in quality of transmission services terms, the frequency of errors of ethics and / or technical services, promoting the attractiveness and efficiency of supply of meals and drinks, and ensure hygienic level in the unit, which indicates once again, if necessary, the very high expectations of customers for these items. The smaller discrepancies between perceptions and expectations were recorded in the quality of

preparations and beverages offered the ability of building menus depending on culinary and gastronomic peculiarities of other people and environmental conditions provided by the unit of food services.

Figure 1. Media of expectations and perceptions on each item analyzed



Source: Data processing based on evaluation of Customer Reviews

Although the results obtained from such tests are subjective, they involve a hearing on the characteristics of the elements analyzed and, on the quality of services provided. On the basis of such analysis can identify the sources of discontent / dissatisfaction of clients and may take action to remedy shortcomings identified and default to improve service quality.

#### 4. Conclusions

Satisfying the customer should be consistent with professional standards and ethics specific tourist organization. Tourism enterprises should establish an assessment and ongoing measurement of customer satisfaction. In these evaluations has identified reactions both positive and negative, and their incidence on the probable

future activities of the organization.

Assessment made by the customer is final and absolute measure of quality of service. Customer feedback can be immediate or delayed and retroactive.

Efficiency and quality of the default actions are directed by customers, depend on tourism to a large extent the qualities of staff is in contact with it. However, account must be taken that, to facilitate a quality service, performance, and the secondary must have some characteristics that satisfy consumer needs and expectations.

Therefore, you will need as employees, i.e. those whose jobs are in a position of the organization in contact with the beneficiaries directly and permanently to hold some personal characteristics, abilities and skills measured, so as to satisfy the needs and expectations of its citizens. All constituents of the organization must take account of the attention to the customer, not separate and they should observe the need for adequate treatment in different moments.

If there is a need for people with certain characteristics, in places that normally involves direct relationship with the customer, will have to design different strategies and mechanisms that allow people more appropriate arrangement for these functions and, moreover, develop skills and appropriate. Consequently, the organization's management must take those measures (policies) for workers (on staff selection and training etc.) that lead to a high quality. Appropriate professional behavior, a sincere smile and a particular attention, for example, may counteract some of the unfulfilled quantitative component. Therefore, staff-client relationship, the staff, the attitude, how to act and react is the key criteria for assessing the quality of services as a whole, elements that generate satisfaction and customer satisfaction.

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## Consumer Mind - a Real Black Box

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### Abstract

*Speaking about professional ethics, market research has never been a model. These findings are trying to link the market research field with the one of science-fiction, which regards their implications. This new field is trying to explain that you should click the buy button in the mind of the consumer. Neuroscientists used laboratory research to sketch a map of brain activity responses for the desires and needs of certain products.*

**Key words:** MRI, consumer, behaviour, neuromarketing.

**J.E.L. classification:** M31

### 1. Introduction

I have chosen the approach of a touchy subject among marketers, studying the unknown of the consumer behavior. The paper makes a foray into an undeniable subject, the consumer behavior. In the conception of marketing that the operators are trying to take more and more with a lot of professionalism, being preoccupied to adapt the offer to the needs and wishes of the consumers that are pretty obvious at this time, from the perimeter of subsistence and enters in the perimeter of psychology. Nowadays for Romanians, the behavior becomes an increasingly important topic.

From a theoretical point of view, consumer behavior is characterized by numerous aspects of personality, motivation, culture, social status, and family groups. Consumer behavior is a field of interdisciplinary study focused on how consumers are behaving and the motivations

of the behaviour in question. Its goal is to help us to understand the needs and motivations, actions, attitudes, references, self image above the consumers under certain circumstances. As a result of all the influences to which it is subjected, it manifests itself in a certain way in the process of purchase and consumption.

The neuromarketing with his revolution tool and daring, it is using research groups to try to distinguish personal patterns of consumer behavior.

### 2. Theoretical considerations

In the past years in the U.S. consumers brain research through neurological instruments has progressed. [1]

At Harvard University, the professor Sean Kelly said that in groups of market research, the marketers have even used hypnosis.

Under the lead of Clinton Kilts, professor and vice president of the Psychiatry and Behavioral Sciences Department, expert in addiction and author of numerous professional papers at Emory University Hospital, USA, the new discovery has reached climax. Bright House Institute for Thought Sciences, where Clinton Kilts became manager, was continued the research by using neural findings of Emory University hospital. Coca-Cola, Pepperidge Farm, K-Mart and Home Depot were the climbs of the advertising agency of the institute.

In early 2002 Kilts conducted an experiment where he gathered a group of research subjects and asked them to look at a number of products, assessing how much they liked it or disliked it. With the help of this experiment, he showed to the group

pictures of the products while their brains were scanned by the MRI scanner.

This brain scan reveals areas of brain activation sequence, these methods in market research are studying sensory feedback, cognitive and emotional stimuli of consumers to products or services. The human brain is often viewed as a "black box", which is something mysterious.

Since the Bright House Institute created and supported neuromarketing with its contrary opinions, another entity, the American Association Commercial Alert had been formed to oppose the scientific approach. [2]

A good example of companies who have learned about images of the brain and were really eager to use them in order to get results for their sales department is Daimler Chrysler, who was trying to highlight types of car design among young people at Ulm University.

In United States the popularity of this instrument has made it to be used even in the field of political marketing. In the first election campaign after the attacks on September, 11, 2011, professor Marco Jacobin, of California University, Los Angeles, has made several studies on the political issue regarding election loyalty against George Bush Jr., John Kerry and Ralph Nader, after that they used neuromarketing techniques. [3]

However, a difference appears because after 2002, these market research methods were developed in Europe, especially Germany and France, the first attempts were related to when a customer comes in contact with a new advertisement. European people use electroencephalogram a cheaper neurological tool, because the research by MRI is very expensive. [4]

We can say that Romania, our country, is ready for such market instrument only at a theoretical level, becoming a subject far too distant from the realities we are living .

### 3. Method and results

Knowledge and explaining consumer behavior and purchasing has become an urgent necessity, ignoring how the manifestation of it, causing serious problems. Each and every product delivers the different meaning to each user. User behavior is not

related what consumer buy, but also with what they buy it. It depends on those factors which inclined the behavior of user or buyer. Culture, family and brand image these all factors influenced the buying behavior.

The repetition of advertisement and economic factor like per capital income also change the consumer behavior about to choice the product. [5]

Because the consumer's behavior is manifested on the market, it becomes a major study of marketing.

We have studied the way in which the advertising influences consumer's behavior. The shape of how the study was done was build by the survey conducted on a representative sample for the population of Resita.

The research was done on a representative sample of 366 people (quantitative research) in the population of Resita.

As a form of research we used the survey: individual structured, based on a questionnaire consisting of 10 questions, all closed. The questionnaire contains 7 questions of content and 3 of identifications the interviewed person.

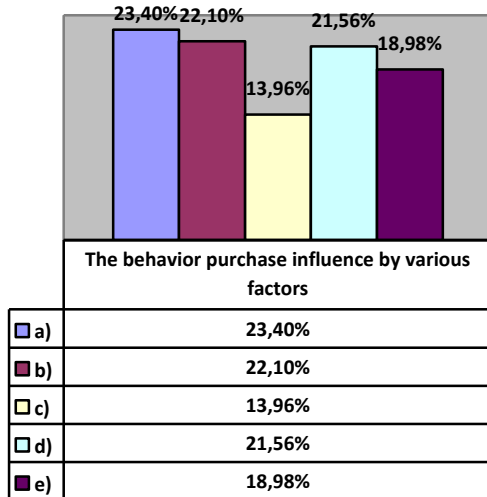
The most important objectives in this research are :

- how advertising influences the purchase decision of the subjects
- what the consumer thinks about advertising
- trying to highlight the most important techniques in order to promote
- many ways for a company in order to become known

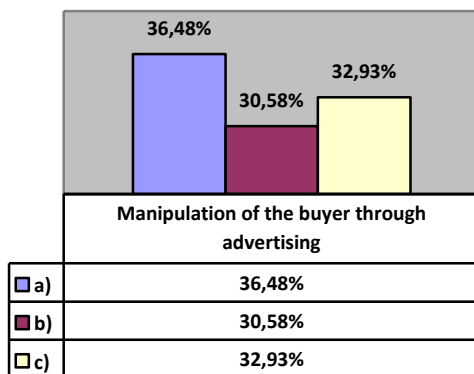
Knowing the fact that the goal of research is studying how advertising affects consumer behavior was considered appropriate as a form of research survey on a representative sample population of Resita.

To question number 1, on the total sample, most of the subjects (23,40%) stated that the endogenous factors, as well as the needs and motivations of most influence purchasing behaviour of the consumer (11,30% men and 12,10%women). The idea that influence of attitudes and behaviour of consumers preferences is the largest percentage of 22,10% (10,17% men and women 11,93%). Those who consider that culture and social class as strongly influencing consumer behavior are in percentage of 21,56% (10,23%men and 11,33% women) , and 18,98% (8,90% men

and 10,08% women) argue that exogenous factors, such as reference groups and family influence consumer behaviour, whereas only 13,96% (6,76% men and 7,20% women) that self-image has positive impact on consumer behaviour.

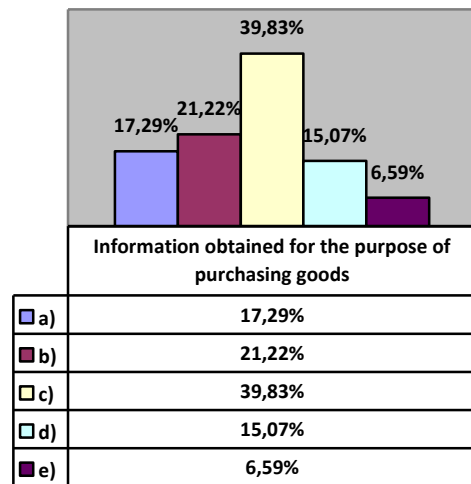


On the total sample, to question number 2, most subjects 36,48% (16,37 men and 20,11% females), are manipulated while watching a certain advertisement. In fairly large number, a percentage of 32,93% are those who are undecided, who do not know if they are corrupted when they follow a particular advertisement (men 17,49% are more undecided 15,44% than women). A percentage of 30,59% declare that they aren't manipulated when watching a certain advertisement.

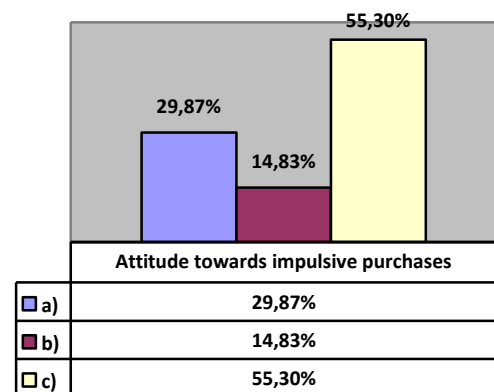


At question number 3 on total sample 39.83% of subjects are undecided when they are asked if they are satisfied with the information acquired to purchase products. Of these, the most undecided 25,56% are men and 14,27% women.

The next place is occupied of the second variant of answer in percentage of 21,22% (10% men and women 11,11%) of those who were surveyed they are satisfied with the acquired information to purchase products, 17,29% are very satisfied with the information obtained (6,66% men 10,63% women) 15,07% of those who were surveyed (9,87% for men and women as 5.20%) are dissatisfied.



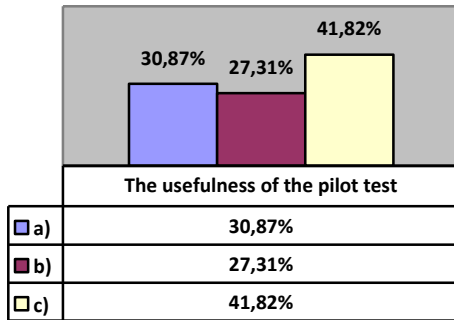
On the total sample, to question number 4, in percentage of 55,30% (30,31% men 24,99% women) of respondents are undecided in relation to their attitude towards impulsive purchases. 29,87% (11,38% men 18,49% women) show a negative attitude towards impulsive purchases, while only 14,83% of those surveyed have a positive attitude towards impulsive purchases (8,20% men and 6,63% women).



At question number 5 on total sample 30,87% of those questioned responded yes in the case of the pilot test (12,25% men 18,62% women).

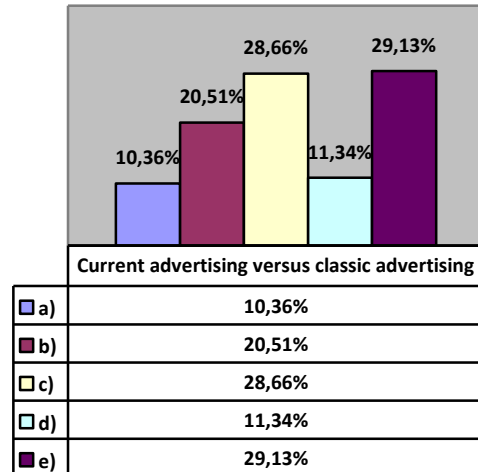
The same question, most of the respondents say they do not know if it is useful, so pre-testing products are undecided (41,82%) 25,86% men and 15,96% .

It is observed that those fewer say that it is not useful for pre-testing products (27,31% 17,16% men and 10,15% women ).

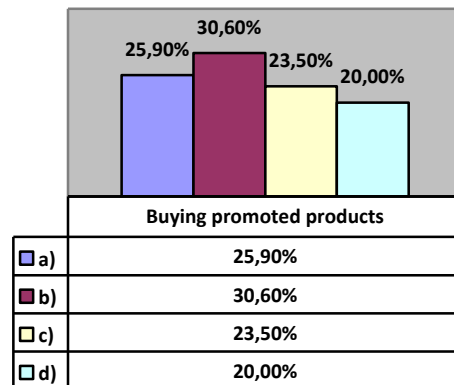


At question number 6, on total sample 23,84% of persons interviewed (16,52% men and women 23,84%) believes that the current advertising differentiates the classical by costs. Time is another option of response to our question, 20,51% (10,87% female and male 9,64%).

28,66% of persons who were interviewed, 13,67% of men believes that interactivity is the most solid criterion in differentiating the two things, women representing 14.98% from the total. Globalization, another characteristic of the current advertising has been chosen as variant of answer to your question in a percentage of 11,34% (5,04%men 6,30% women), smaller than other variants of answer, the answer most often encountered was the availability, 29,13% (13.00% men and 16,13% women), as the one who makes the difference clear between the current and the classic advertising.



At this question, number 7, the response b (multiple times) establish among respondents, regardless of gender, age or occupation. Interesting is that all The age categories bought products that were promoted at least once.(Under 20 years 20%,between 20-29 years 26.56% , between 30-39years 25.86%, between 40-49 years 27,53% , between 50-59 years 21.21%, over 60 years 30.87%),but 40% of those who were interviewed, with age between 30-39 bought several times promoted products.



#### 4. Conclusions

One of the few common names that we carry with us all, no matter their education, politics or our obligation, is, above all else,that we are consumers. This means that we usually consume or use in food, clothing, housing, transport, education, brooms, pots, luxury items, and even ideas.

I started from the idea that Romania is in the waiting room of the era of consumer behavior and in developing countries is in the

informational stage. To pass the apostolate level and make it useful, I tried to keep a balance between farm basic concepts of behavior, research findings and examples of applied marketing.

In order to create marketing products and services with an unique and practical design, marketers will use these techniques to better measure the consumer's preferences and the question whether we like a product will be closer to the truth.

The most important merit of this technique is to have opened means of using it in more areas, to establish certainty about certain market aspects through brain scanning. Specialists can improve to a popularity of a brand appealing to a sample of consumers who are shown some pictures while being inserted into a machine and subjected to a radio-magnetic flow, so this thing can learn the specialists how the human brain responds to the advertisement.

In conclusion we can say that we are pleased to discuss this issue, hoping that you will do the same thing, and as young professionals, we would like to use in a research such a tool even if its expensive ,not only for us, but also for well known companies.

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## Emerging Labor Force and Specific HR Retention Approach in the Organization’s Competitive Advantage Outline

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### Abstract

*Several factors contribute to the organization’s success in a competitive business environment. The human factor is undoubtedly, in our opinion, one of the key factors of success and a source of competitive advantage, therefore its motivation, retention and continuous training should become a priority for the organization. High employee turnover, as well as low one impact on the competitiveness of the organization, by damaging its capacity to adapt via culture value adjustments.*

*Crises and similar events affecting its environment inflict a very dynamic rhythm of changes to the companies, including at the personnel management level. Various surveys and studies have been already conducted regarding these phenomena especially in the new European context. By analysing their conclusions and by estimating future trends applicable to the Romanian companies, we aim to demonstrate the necessity to integrate the modern principles of managing the human factor into the general strategies of the organization.*

**Key words:** retention strategies, employee turnover, competitive advantage

**J.E.L. classification:** J28, J63

### 1. Introduction

As a result to a survey realized by a web-recruitment organization based in the United Kingdom, over 70% of HR managers acknowledge that employee retention is a primary business concern, while about 40% of HR managers reported an increase in workers’ turnover during the pre-crisis years with a steadier trend over the last 5 to 8

years, due to economic crisis and to employees tendency to be less dynamic in a changing context. Though HR managers currently view employee retention as a business challenge, the long-term demographic changes, such as the retiring baby boomer population for example, have the potential to aggravate this matter. It is evidently mostly the case of American companies and, to a certain extent, the case of European Union founding countries or the ones with increasingly aging population.

In the new, significantly different labour environment that became the new reality in Romania, the average employee’s values and expectations have changed dramatically as compared to ten or even more fifteen to twenty years ago. Employees are less tolerant to the work environment and conditions, have higher expectations as to the professional path, career advancement, training programmes and personal development and valuation at work. There is this new breed - the “emergent employee” that traverses all ages, line and genders, and the revelation is that it is quickly changing the way organizations attract, develop, manage, and retain top talents. It is why, in order to be successful, companies must understand and adapt to the new, emerging labour force.

A new concept is introduced, “the emerging employee”, with all of the above mentioned characteristics, which singularize him and makes the organization more aware of the necessity to alleviate its HR strategies of retention, management, development and attraction of such personnel.

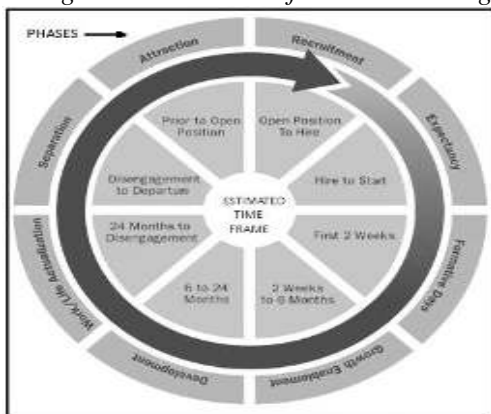
### 2. Indicators on the employee turnover

We introduce the Emergent Employee Life-Cycle (ELC), as a new tool [11] that allows the organization to setup the

relationship with its employees, in a structure that points eight chronological steps from the pre-recruitment phase, that becomes more important in terms costs of the personnel attraction, to the post-separation phase, once the contractual relationship has ended, with more or less elements of separation costs and, more significantly, bearing opportunity costs for both the former employer and employee. (Fig 1).

The ELC model reveals itself to be an interesting HR tool, as it gives the organization a unified approach to address the requirements and prospects of employees per stage of the contractual relationship: pre-recruitment, recruitment, installation, training period (increasing costs for the employer), settling in (followed by increase in productivity), development (maximizing productivity), re-shifting in the employee life/expectations (decrease in productivity) and eventually separation.

Figure 1. Phases of the ELC diagram



Source: Retensa Employee Retention Solutions [11]

The difference in approach and managing the employee in relation with the duration of their stay in the organization is obvious. As much as the contractual relationship between employer and employee extends and more of the eight steps of the model are taken, the cycle is completed, so the supervision of the employee “life” in the organization becomes more significant in terms of costs.

The ELC model advises that by applying this diagram, the management is provided with a useful mechanism enabling the organization to quantify its HR effectiveness at large and handle its staffing costs in order to increase the performance of the personnel.

In our opinion, it takes more than that in order to effectively save on the personnel expenditure, although we acknowledge the steps of the hiring process and we agree that keeping a time frame on the employment cycle per employee or at least an average per department can be useful for the organization’s personnel strategies in the long range.

We also have the same opinion on the existence of the life-cycles per employees and on the fact that maintaining a close look on the evolution of the personnel can help preventing early separation or loss of motivation and performance, conducting eventually to separation.

Keeping an employee satisfied has its obvious advantages in terms of work ambiance, commitment to the organization’s goals, implication in attaining objectives and general loyalty to the values of the company. It can, on the other hand, bring self-contention and overstated security of the workplace, which would affect the competitiveness of the personnel not only on the labour market at large, but also in the organizations that keep them. There is nothing wrong with having a happy employee, it is an ideal situation, but the organization works towards performance and profitability like a reunion of interests, often in competition and certainly in progress. In other words, we believe that competition at any level is good; moreover, it is a necessary ingredient to success. Competition and competitiveness can confer to the labour factor of the organization the status of a key advantage in the business environment.

Employee turnover can fluctuate per sector, industry and location of the business we analyse. For example, industries like the food services or, at the other pole, the IT industry can both experience higher turnover, up to 130%. The pressure of employee turnover varies also with the size of the organization, being more important in the case of smaller businesses than in the larger organizations.

In order to be able to take effective actions to reduce its turnover, the employer should first have an objective insight of the costs induced to the organization might by the loss of its staffing at one point in time or on a yearly basis. In terms of the flow between staff in and staff out, it is difficult to

find the right equilibrium that allows good trends of high productivity from the personnel that is experienced enough as it has been enrolled for a longer period of time but remains motivated and the newly recruited that bring motivation, fresh ideas, but lack experience and need up-to-speed training to reach performance. These aspects can and will affect one of the significant competitive advantages of the business on a mid and long term range.

What is then the turnover and how do we calculate it? A general approach would be to simply track over the

A very useful method of calculating the cost of the staff turnover has been developed by the renowned PricewaterhouseCoopers Saratoga Institute. This calculation uses mainly the cost of hiring and training new staff, which is as an objective approach and states that:

*Total employee turnover cost = Costs of hiring new employees + Costs of training new employees*

We would add to this empirical relation the cost (in weeks/months of activity) of creation of the required synergies between the new staff and the existing team; in other words, this would be the cost (in terms of energy and time) to transform the new comer into a team player, which is less easier to detect, formalize and control.

Most organizations will track their turnover rates (T) on a monthly or yearly basis, using the ratio:

$$T = \frac{L}{E} \times 100$$

Where L = Total number of staff out over an established period of time

E = Average of the total number of new employees over the same period.

The result obtained includes employees that left the organization, for whatever reasons, including dismissals, redundancy or retirement. Aside the turnover figure that might show – when studied in trends – early signs of future misperformance in the organization due to a bad work environment, we think it is useful to calculate a separate figure for the voluntary turnover, as this would clearer point out the areas where the work environment is affecting the employment dynamics.

More complex indicators should include characteristics such as seniority and experience in their composition of aggregate figures.

As opposed to the turnover rates, we calculate a stability index ( $S_{index}$ ) that shows the way retention policies are put in place to keep experienced employees on board. A related rate is used:

$$S_{index} = \frac{L^*}{S_p} \times 100$$

Where  $L^*$  = Number of employees that leave the company with more than one year of service

$S_p$  = Total number of staff in post in the previous year.

Stability rates and indexes (over longer series of time for the same organization or on cross sectorial analysis) are useful for benchmarking purposes and for observing the general dynamics of an industry in terms of its capacity to attract and retain professionals.

### 3. Components of the costs when hiring new employees

The cost inflicted to the company when hiring new employees generally includes the following factors plus a margin of 10 to 15% for incidentals such as background or security screening, when needed.

- Advertising the vacancy on specialized platforms, newspapers, recruitment channels;
- Selection of candidates after receiving applications;
- HR unit time and induced costs of interviewing processes – if selection is made thru internal department;
- Cost of tasks covering during the period when the position is vacant;
- Initial training onsite to get the new staff up-to-speed;
- Relocation pay and Travel expenses, when applicable;
- Pre-employment charges such as Assignment grants, when applicable.

To the above mentioned costs, the employer needs to add on some inherent expenses related to the training factor for the new employees:

- Training equipment and other resources
- Technology



- Time for trainers and/or costs if outsourced.

Many of these costs consist of management or administrative staff time (viewed as opportunity costs) but direct costs can also be substantial when advertising, recruitment agencies, head hunters or assessment centres are used in the recruitment process.

#### **4. Employment and turnover levels – European statistics**

A study on the recruitment, retention and turnover survey [9] initialized in 2007, so early crisis, reported an overall employee turnover rate for the United Kingdom of 3.9% with average job occupancy remaining rather constant from 2001 to 2007. On a report from 2013, both voluntary and involuntary staff turnover got a peak in 1998 at 4.5%, followed by a progressive decrease in 1998 until 2007 and a sharp plunge in 2008 and 2009, at 2.8%. This trend is almost entirely due to the falling of the voluntary turnover (1.4% in 2009 from 2.2% in 2008). [12]

At the European Union level, according to provisional national accounts estimates published by Eurostat [10] we find that in EU27 at the beginning of the economic and financial crisis in 2008 there were 16.7 million unemployed persons, while in 2012 the figure went up by a sharp 51,5%, to 25.3 million. The unemployment rate in the EU-27 is calculated at 10.5 % in 2012, up by 3.5 p.p. than the one recorded in 2008.

Aside from that, another interesting trend concerns the long-term or structural unemployment, namely the rate of persons who remain unemployed for 12 months or more. This percentage is useful to be calculated, as consequently the longer people remain unemployed, the less attractive they become for employees, so higher is their risk of remaining even longer outside of employment area. In 2012, the long-term unemployment rate (for persons aged 15–74) was 4.7 % in the EU-27, with identical long-term unemployment rates for men and women.

The EU-27's active population is at a rough 242.2 million persons aged 15–74 in 2012, among which 216.9 million were

employed and 25.3 million were unemployed (in search of work and available to work). The EU zone employment rate for those aged 20–64 recorded a net decline of 1.9 percentage points during the period 2008–2014.

While the EU target of employment rate is of 75% by 2020 for employable persons between 20 and 64 years old, as set up by the Europe 2020 strategy and European efforts into increasing this indicator are put in place, the actual rate in EU-27 was 70.3 % in 2008; as for the effects of the crisis, it is suggested that crisis induced a fall of the employment rate (for age 20–64 tranche of active population) down to 68.3 % by 2013.

The data on employment provide an interesting picture of the dynamics of the employment in the European labour market during the last 5 years. The decreasing figures of the (legal) employment, following a period (2004-2007) of increasing trends that showed at the time a good rhythm of the market, whiteness that crisis took a toll on the labour market good indicators. This induced of course a higher preoccupation of the policymaker on creating new lines of development for the excedentary workforce. The interesting tendency is that the variations of the employment rate, its increase or decreasing rhythms can translate an increasing overall turnover, either way. In the absence of the specific data of the employment turnover at the European level, we can only comment to date on the evolution on the employment in general.

As a recent propensity though, on a UK survey from 2013 [12] for the English labour market, we find that while voluntary turnover rates have decreased recently as a result of less favourable economic circumstances, the reverse side appears to be that redundancy-related turnover has become more common.

Turnover levels can vary quite drastically with professions and industries. The highest levels are typically found in retailing, tourism and leisure, call centers and among other lower paid private sector services groups.

In the same Megatrends report published in 2013, we find that the two major causes that induced the employee turnover and have determined trends in the workforce movement on recent decades are deindustrialization and demographic change [12] and the same are likely to continue to

influence this phenomenon. Key findings include:

- The average amount of time people spend with an employer, named average job tenure kept on a steady pace over three decades, between 1970 and 2000. However, the average job tenure appears to have slightly increased after 2008, along with falling job turnover.
- Challenging economic and financial circumstances are likely to be the main reason why turnover has fallen since 2008. However, this does not explain why job turnover was already falling in the pre-recession period.
- The evidence suggests that changes within the workplace over the last 10 to 15 years may also explain falling job turnover. These include changes that took place in retreat financial arrangements and general terms, which put a pressure on the cost of job exit for some employees. Employment legislation new rules such as the National Minimum Wage instrument have also played in our opinion a major role.
- Population ageing appears to have a negative impact on turnover overall.

Organizations have to face also the challenge on how to motivate and keep the long term employees updates with current business practice; the longer the length of the contract gets and job stability increases, the more long termers may become self-content and not sufficiently interested in new ways of thinking and effort prone actions. As stated before, the turnover levels differ quite considerably from an industry to another. According to the cited study, the highest levels of turnover (22.6%) are found in private sector organizations.

According to the same study, the public sector has in the United Kingdom, an average turnover rate of 13.7%.

Turnover levels also fluctuate from region to region. The highest rates are found in the regions where unemployment is lowest. It is also interesting to see that almost 25% of the employees in the United Kingdom have been in their current jobs for five years continuously. It is no doubt a tendency towards stability, but not to be taken as entirely favourable, as the most marketable people still tend to fluctuate between

employers in seek of the best arrangement for their careers, as the less marketable seem to look for steadier contracts that avoid them the effort of changing their workplace and adapt to new conditions.

## 5. Reducing employee turnover

There are some important questions for the manager to answer in order to establish the correct bases for reduction of the employee turnover in the organization. Do we hire the right age/motivation type? Matching the organization's profile with the target hiring group is crucial for the dynamics of the future relationship with new employees. If the organization cannot offer, due to situational sector reasons or self-established boundaries, a career advancement to the personnel, then it should definitely avoid hiring for example young career oriented staff and should orient more towards employees who are more settled and less concerned with advancement. Caldwell [3] points out twelve policy goals of HR management which include managing people as assets while aligning HRM policies with the corporate strategy.

But finally does the employer understand its personnel's motivation? Probably less than expected and less motivated the employer becomes to make efforts for staff that would embrace new challenges to the slightest increase in overall work environment perspectives. Retaining staff requires for the organization to learn and detect what is important to the employees. We talk about the classic external motivators as recognition and rewards, as well as the internal ones like enthusiasm and common goal, adequate structure and sense of belonging to the team. This is at least what the theoretical concepts praise. But are those ones the real motivators for the employee not to seek a job outside his company, towards a competitor or even outside his country? It is difficult to detect the right path and to draw the perfect line between concepts. Is it important to reduce turnover and its associated costs? Obviously it is, but at what price for the organization and which is the perfect balance between retaining the good employees long enough for them to enable organizational performance versus indulging auto-sufficiency and lethargy in learning and

adapting for the employees that may extend inadequately their stay on board in absence of better offers and in presence of too insuring contractual relationships with their employers.

Bottom line, the employee turnover costs and related seem to have a significant impact on the productivity, performance and the culture of the organization, fact stated as well by various authors [2] and surveys initiators.

## 6. Conclusion

Less events can be more wearisome for a business owner or manager than the constant aggravation of the employee turnover. Both high and low employee turnover can be detrimental to the organization. It is why it could become crucial for an entrepreneur mainly to learn how to calculate or at least estimate and restrain the revolving employee exit door in the business. Or, if case presents itself, how to renew the personnel in order to avoid aging in mentality and way of working. Why do people leave the organization? Seeing beyond the usual departure reasons such as more pay or a better job is a real help in understanding why the turnover is increasing or simply happening. The real cause of employee separation will not usually be found in the classical exit interview. There is need to inquire for more profound significance [1] such as lack of support, unreasonable structure of the department or hierarchy, insufficient communication with the supervisors or colleagues. Recent studies highlight the importance of front line managers and how their behaviour relates directly [4] to employee engagement, job satisfaction, advocacy and performance [8]. A poor relationship with a direct supervisor can be the push factor behind an individual's decision to quit their job and leave the organization, but its significance can be hidden as a result of the difficulties associated with exit interviews.

These three types of questions the employer needs to answer can actually have an effect in reducing the turnover and understanding the employee loss, as an issue. Always looking for reasons outside the organization, blame the labour market that goes on stealing the personnel can be blinding and unproductive. The employer has to have a more critical view and certainly

look inward. High turnover can be a signal for a problematic business, as well as low turnover can be a negative, by the luck of attraction of the organization for potential employees.

Less straitened attitude of employees towards changing mentalities and embrace new challenges might certainly encourage turnover which is not a desirable effect, but overall it could strengthen the capacity to adapt and to increase the general employability of staff.

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## An Approach of Romanian Labor Force Including Emigrants and Romanian Diaspora

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### Abstract

*At the global level there is a large phenomenon regarding migration, jobs and movement of people. It can be spoken about jobs challenges that had a global scope with implications for living standards and productivity at both the sending and receiving ends and having effects on communities and families.*

*According to World Bank report (2013) at the turn of the 21st century, there were more than 200 million international migrants worldwide, nearly 90 million of them workers. Some countries are mainly recipients, while others are sources, and yet others neither host nor send significant numbers of migrants.*

*In this article we proposed to do a research about Romanian migrants, the Romanian Diaspora from the important destinations countries for our emigrants and to make some useful recommendation for the policy that should be taken to improve this situation.*

**Key words :** migration, labor market, jobs, employment.

**Clasificare J.E.L.:** J11, J15, J21, J6

### 1. Introduction & literature review

A definition of international migration can be formulated as a demographic, social, and economic phenomenon that has acquired an increasingly global dimension. At global level, it is well known lately that international labor migration has been growing up. So if we are checking the evidence, we can observe very quick that in terms of emigration the last fifty years have been characterized by a long distance emigrants have walked. We can say that there is diversification in terms of destinations and origins of the countries (

both receiving and sending).

Some authors, among also Vertoc speak about a “super-diversity” in terms of emigrants to define the great variety of different people who choose to emigrate and as well the immigrant –receiving countries[1].

Vertoc explains his research based on the idea that an increasing number of “new, small and scattered, multiple-origin, transnational connected, socio-economically differentiated and legally stratified immigrants have recently arrived and settled in destination societies”[1]. It has also been argued that with the increasing integration of societies in international migration systems, more and more countries are experiencing significant volumes of immigration and emigration.

Taking all of this in consideration we can say that according to labor market issues, global migration patterns have become more complex.

Baldwin-Edwards in one of his papers regarding migration policies with study case on Romania in European Union lift up that “making a comparison with migration in other times, it is very easy to observe that some time ago it was a more clear-cut division between immigration and emigration countries”. He also suggests that one of the explanations is that, in the past, migration often concentrated in a few bilateral corridors, frequently following colonial and other historical links[2].

Also, in terms of mobility Hein de Haas & colab observe that “the vast majority of transcontinental migrants from Franco-phone Africa moved to France, while migrants from Anglophone Africa tended to move to the UK” [3]. In recent decades, these patterns seem to have become more diverse with a “fanning out” of migration to new destinations in Southern Europe, the Gulf and Asia.

To link this issue to globalization, it Czaika and Hein das Haas noticed that “the assumed increases in the volume, diversity, geographical scope, and overall complexity of international migration are commonly linked to advances in transport and communication technology and more generally to globalization processes.”[4] So if we want to define globalization , one way it could be to defined is as the a way through out world can be speed up in terms of interconnected-ness in all aspects of contemporary social life.

## **2. Aspects regarding emigration of the Romanian Labor Force and Romanian Diasporas**

A radiography of Romanian labor market should start with a small remark that after the fall of the communist regime in 1989, migration trend in our country has changed completely. Until then it could be discussed only about a closed economy and a very closed labor market, wishing to achieve a no unemployment trend. Researchers identified several phases in this short history after year 1990, as presented below:

- Together with emigration, a new phenomenon of immigration started after year 1989. It can be spoken as well of the “illegal transit migrants trying to reach other European countries; the arrival of small but increasing numbers of asylum-seekers since Romania signed the Geneva Convention in 1991; and a slowly increasing stock of foreigners with temporary permits – 66.500 persons in 2002” according to OECD[ 5].
- between 1990-1993 , according to the 2004 Ethno barometer it was a “mass of permanent emigration of ethnic minorities [German, Hungarian] plus Romanians fleeing political turmoil and poverty. The latter tended to apply for political asylum in the West, summarizing 116.000 applications in 1992.”[6]
- Making a comparison with the Romanian context at that time , it can be speaking of a developing of circular migration of Romanians between Germany and

Romania(seasonal jobs , mainly in agriculture , non-skilled jobs were provided in farms)

Over this period, the age structure and educational level of (permanent) migrants also changed, making emigration a potential issue of brain-drain which represent an actual and important problem for our country with long time repercussion.

- The Ethnobarometer(2004)[5] offers more information about the 2002-to date period so” due to the elimination of the Schengen visa requirement it has promoted a rapid growth in circular migration, even to the extent that Romanians who had previously been “stranded” in Schengen countries were able to return to Romania to enter the circular migratory system.” This possibility of the 3 months’ legal tourist stay it was created a sophisticated circular migration system, focused primarily on two countries, Italy and Spain, the mainly Romanian emigrants country receivers. So this new strategy succeeded in evading European labor market controls by migrants’ working illegally for 3 months – essentially, job-sharing with other Romanians in a carefully-choreographed “pass the job” mechanism. People returning to Romania, sending in their place relatives or family and finally after 3 months returning to theirs own jobs.

In a recent survey on Romanian migrants it was sketched the profile of this population in recent years. The typical international migrant is young or prime aged, better educated, equally likely to be male or female, and leaves the home country in search of better economic opportunities. Women account for almost half of the migrant population. Migration patterns have changed in recent years. Romanians who went abroad around the year 2000 tended to be less skilled and sought work in the booming Spanish construction sector or healthcare sector in Italy. Since 2005, migrants were younger and more likely to have tertiary education than the average Romanians, and relied less on networks in their destination.

Since this trend has a continuous form,

our country may benefit from policies which are able to link Diaspora and the local economy and creating for migrants to return and invest productively at home. Secondly this can be done, by creating incentives for gearing remittances towards productive investments and facilitating the transition of those workers who want to, for example, making it easier to maintain social benefits, buy property and start a business

Reaching Europe 2020 targets for Romania represents a desiderates. It can be noticed that skills remain a major challenge for our country. In particular, in 2013 World Bank report it is highlighted that” there is insufficient provision of the higher level generic and technical skills needed for a modern and competitive economy, including skills for technological innovation and absorption of new technologies”.

And not at last , according to the same source “in order that our country achieves its Europe 2020 employment target it must be increase rate of employment , starting with the labor force participation of women, youth and older workers”. For this groups it is registered the lowest labor market attachment. In fact around 90 percent of men aged 25-49 were employed prior to the international financial crisis, a rate comparable to other New Member States. A 72 percent of women in that age range have jobs and nearly a quarter does not look for a job and prefer to stay outside of the labor force. Employment rates has decreased dramatically for older people: 60 percent of men are employed in the age range 55-60 and approximately one third in the 60-64 age range while the respective rates for women are around 40 and 25 percent. These largely values reflect low rates of labor force participation.

Regarding to the Europe 2020 targets set up for our country , as it can be seen below we are far from achieving them very easy .

Table1. Europe 2020 Strategy Targets

Overall Targets	Romania Targets	Romania, 2012
75% of the population aged 20–64 should be	70%	63,8%

employed		
3% of the EU’s GDP should be invested in R&D	2%	0,48%
The share of early school leavers should be under 10%	11,3%	17,4%
At least 40% of 30–34-year-olds should have completed tertiary education	26,7%	21,8%
Reducing the number of people at risk of poverty or exclusion by 20 million in the EU	Reducing by 580.000 the number of people at risk of poverty and social exclusion, by 2020, as compared to the year 2008, meaning a reduction by approx. 15% of the number of people living in poverty	-240.000 people (23.4% in 2008 compared to 22.2% in 2011)

Source: European Commission ([http://ec.europa.eu/europe2020/europe-2020inyourcountry/romania/index\\_en.htm](http://ec.europa.eu/europe2020/europe-2020inyourcountry/romania/index_en.htm))

At the beginning of the financial crisis, one of the major problem entrepreneurs raised was the difficulty in finding workers with the skills they needed. This fact turned later in one of top constrains of their business

growth. There was a substantial increase in the share of firms reporting that finding workers with adequate skills was a major or very severe constraint to their business from the mid to late 2000s. The result of the survey conducted by national institution and not only, turned out that more than four out of 10 firms in Romania reported skills as a major or very severe constraint. The increase was stronger after the country became integrated to the EU markets and began experiencing rapid emigration.

In terms of concerns about an ‘over-supply’ or ‘over-qualification’ of university graduates Romania seem misplaced. There is little evidence that an overexpansion of tertiary is driving down returns to college overall. Although the lack of required labor force micro data for the early 2000s prevents an assessment of trends, compared to other ECA countries, Romania (72%) is closed to the Lithuania, Latvia and Poland average and Turkey which is registering the highest level (98%). The average earnings premium for tertiary education at the end of this decade was generally as high as in other well-performing EU10 economies. It is not clear, however, to what extent the high tertiary returns partly obtain from the slack caused in the labor market by the sizeable emigration of Romanians, many of whom are increasingly well-educated. Also, the crisis may have affected the returns, although this depends on how it has impacted employment opportunities and earnings of the college-educated relative to those of high school graduates.

An answer to the question “who are the Romanians from diasporas?” can be offered below. So a part of them (the ones skilled and educated) went to different host countries mainly in Northern Europe and the non-European Anglophone world, often found a job in the formal service sector, including banking and finance, and were able to advance their careers upon migration. It is also well known that in terms of adaptability and productivity Romanians are very good and very fast in achieving new abilities.

Despite downward professional mobility, most Romanian emigrants do better in labor markets abroad. A possible explanation can be the financial benefit (wages and the social system) offered by the job in the host country. When starting employment in

another country, migrants often take a step down in their careers, switch sectors or accept jobs that make little use of previously acquired skills. For example, typical cases are nurses who work in old-age homes or skilled mechanics who become unskilled laborers in the construction sector in Western Europe; a statistics offered at European level showed up that about 35 percent of former agricultural workers move into construction, 15 percent into manufacturing and 14 percent to domestic work. In other sectors, workers are better able to put the skills learned at home to use: in construction, for example, a sector that absorbs over a quarter of all migrants from Romania, more than two thirds of workers remain in the sector after migration. Yet, migration does pay off as they still earned higher incomes abroad.

On a background of an aged population, authorities should be more involved in finding solution for bringing home the migrants. But given the prospects for these trends continuing, Romania can benefit from policies strengthening the links between the Diaspora and the local economy and creating incentives for migrants to return and invest productively at home. For instance, by creating incentives for transmitting remittances towards productive investments and facilitating (it is well known that around 2012, Romanian had the highest level of remittance in Europe), the encouragement of those workers who want to, for example, making it easier to maintain social benefits, buy property and start a small business (family one) or a SMEs’ basing the experience gained abroad.

### 3. Conclusions:

It is quiet difficult to make recommendations and concluding remarks to a country situation in which the central authority isn’t concerned about migration of all categories, but especially of young people and doesn’t make a priority from it.

Some proposal and conclusion can be:

- making economical reforms in order to create the proper climate and environment for business with high potential to thrive and create jobs;
- encourage youth and older workers who have accumulated the skills and know-how in their occupations and



- have potential to lead successful start-up firms and become entrepreneurs ;
- doing a better policy regarding active labor measures(ALMPs) in order to do workers more adaptable , develop incentives for work ;
- implement training programs for disadvantaged joblessness youth (including Roma people, as well);
- Improve work incentives by lowering the tax burden for low-wage and second earners, and remove barriers to work for youth, Roma, older workers and women through evidence-based ALMPs;
- facilitate the employment of women, youth and older workers through active labor market policies through adaptation of labor regulations and making more flexible working schedules.
- Face up to demographic imperatives. Establish smart migration policies to tap on needed talent in the Romanian diasporas.

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## Sustainable Development and its Influence on the Change of Consumer’s Behaviour

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### Abstract

*The current state of humanity is the result of our behaviour and interests, and in this context, marketing draws attention to the change of consumers and producers mentality and behaviour, in order to assure sustainable development. It is obvious that, currently, the consumer shows a high requirement in terms of choice and consumption of products/services and becomes more responsible to the consequences that its consumer behaviour can have on the future of humanity. Sustainable development admits that human activities are dependent on the natural environment and tries to outline a conceptual-theoretical and legal-operational stable framework for decisions making which concerns the human-environment report, whether it is about the environment that surrounds us, or the economic or social environment.*

*Our study aims to capture the points of convergence of studying consumer’s behaviour with the principles of sustainable development, in order to allow the understanding and anticipating of both the trends in the evolution of production and consumption, and the marketing practices adopted by companies and expected by the consumers.*

**Key words:** consumer’s behaviour, sustainable development, current marketing

**J.E.L. classification:** M31, L1, D70, Q56, F63

### 1. Introduction

Nowadays consumer has become a smart client that buys the product with responsibility for the future, which means that he choose between all the alternatives offered, a good product at a fair price, of a quality that makes it lasts longer, he informs himself about the product’s origin, growing conditions, processing, storage and packaging management, he moves from short-term shopping to long term shopping. [1]. It can be said that, a characteristic which is manifested more and more obviously in the current behaviour of consumption is the responsibility under different aspects. On one hand, the consumer shows responsibility when he buys with carefulness for the future, paying attention to the criteria of choice of products/services that comply with the principles of sustainable development. In this context, we can talk about the consumer’s orientation towards the quality (of goods/services) which lasts longer and respects the natural environment. A product that ensures sustainable development does not necessarily have to be perceived as being more expensive. Even if such a product would have a higher price, it has the advantage that lasts longer and offers the consumer, ultimately, the possibility of saving money, another dimension of satisfaction gained in agreement with affirming his values in a new purchasing model. [1] On the other hand, the responsibility of nowadays consumer aims the influence exerted by him on the development and the promotion of sustainable products. Taking into consideration these trends, companies are becoming more concerned in shaping a sustainable development strategy, able to

satisfy the current and future needs/desires of customers, by offering goods obtained in conditions of compatibility with the natural environment. The increase of social responsibility is reflected in the growth of the economic performance of the conducted business, in a new positioning of the company on the market and in the increase of customers loyalty.

## **2. Theoretical approaches of the main aspects which characterize sustainable development**

From the late 80s, in literature and in everyday language, there is the tendency to use the concepts of sustainable or durable development. Though, the notion of durable development was outlined several years ago. [1] It seems that the global ecological crisis from 1929-1933 was the moment of emergence for sustainable development, which was designed precisely as a solution to the problems related to improper exploitation of resources and degradation of the natural environment. [2] In the context in which, on one hand, we do not have a common point of view of experts regarding the content of the two concepts [3], and on the other hand taking into consideration the existence of the tendency to use more often, in studies, documents and strategies, the concept of durable development, we will use in this paper, the two concepts, as being interchangeable.

The importance of sustainable development can be explained by a few directions of action, which this concept proposed: harmonizing the three basic elements of modern life - economic development, social development and protection of natural environment at local, national, regional and global levels; shaping a new model of economic and social-cultural progress; determining changes of mentality, behaviour and structures, which shall be able to provide efficient and viable development. [1] On what is concerning sustainable development, we recall that at the Gothenburg European Council, from June 2001, it was adopted the European Strategy for Sustainable Development (SDD). One of the general objectives of SSD refers to "creating a society of social inclusion by taking into account solidarity between and

within generations, ensuring security and increasing the quality of life of citizens as a precondition for the preservation of individual well-being". [2] After a few years, the EU Council adopted on June 9, 2006, the renewed Sustainable Development Strategy for an extended Europe. In this document, designed in a unified and coherent vision, it is specified as a general objective, the "continuous improvement of the quality of life for the present and future generations through the creation of sustainable communities, able to manage and use resources efficiently and to exploit the potential of ecological and social innovation of the economy, in order to ensure wellbeing, environment and social cohesion protection".[2, p. 11]

It can be said that human development (regarded as a biological, social and rational being) is conditioned by the environment he lives in and with which he forms a particular type of ecosystem [4] In the same time, in Brundtland Report - "Our common future", a key document of sustainable development, it is insisted on the urgency to take into account the ecosystem of our planet. In ecology, the ecosystem means the assembly formed by all the living things together with the environment, but also the network of interdependencies between its elements, which allows life conservation and development. Thus, we conclude that the whole development of human being, must be conducted by respecting the natural ecological balance of the planet. [1] Also, when we analyze the human behaviour and we choose the marketing strategy of the company, it is important to keep in mind the interaction of the factors which determine the consumer's behaviour with the natural environment.

## **3. The current stage of marketing and sustainable development**

The theoretical and practical stage of current marketing has, for certain, the mark of the technological progress, which manifested in the last century. [5] It is the one who brought new production technologies (some of which are less cautious to the natural environment), fast diversification and renewal of products, a pronounced segmentation of the market, the

reduction of product life cycle, new directions for action from organizations, as well as changes in consumer's behaviour.

Currently, in marketing, the consumer is studied as a complex human being, with mind, heart and soul energy, who is seeking to obtain from the products/services, that he chooses carefully, functional and emotional satisfaction and, above all, spiritual fulfillment.

Referring to the current stage of development - Marketing 3.0, Professor Kotler brings into question the concept of "creative society", which is based on technology, while about creative people, he thinks that they have a very important role throughout the entire modern society. Thus, creative people are considered "innovators" because they create and use new technologies, which enable them to become "nodal centres" and, further, they managed to connect the consumers between each other, to influence the whole society through their attitudes and their life style. Other experts see the concept of creativity the main element of human civilization development and consider creative people to be able to concern themselves about their own improvement, but also to shape the world they live in. [5]

The changes do not stop there. Consumers are becoming more involved and try to show their creativity, to express themselves and to collaborate. New concepts in marketing have emerged, thus, the consumer becoming "cocreator", "prosumer" or "consumer-actor". [5]

If we only refer to what meant the information technology after 2000: the increase of the endowment degree with personal computers, mobile phones and internet connection, we can notice a number of changes that have occurred at the level of consumer's behaviour, too. This „new wave in technology” gave the consumers new possibilities of expression, and moreover, to discuss between them. Networks of social dialogue or social media platforms were created, which rapidly expanded worldwide. Consumers started to influence each other more and more, while the influence which companies have, through advertising on the consumer, is decreasing. The development of social media platforms reflects the tendency of moving consumer confidence, from companies towards other consumers. It

can be said, that, today, also the consumers make marketing within social media platforms, when expressing their opinions and influencing /advising other consumers about different offers.[5]

Taking into consideration these challenges, for many companies, adopting the strategy of sustainable development becomes a requirement for facing a changing and more difficult business environment, but this strategy can bring them a real competitive advantage. A US study, conducted in 2008, including 1254 leading managers from around the world, demonstrates that there is an explicit connection between performing the activity following the principles of sustainable development and the results obtained. [5]

The companies which were concerned about reducing the negative effects of their activities on the social and natural environment, recorded increases of their profits and of the share price on the stock, two - three times higher than the companies which were not interested in sustainability. The positive effects of the sustainable activity are also manifested by customer growth, improving shareholder value and attracting reliable employees. The interest of investors is more and more directed by the indices that track sustainable practices. Sustainable indices express the economic, environmental and social impact that a company has on society. The management of the company must use the strategy of sustainable development as a source of competitive advantage, on long term, which is able to assure the differentiation from its competitors. [5]

#### **4. Changing consumer's behaviour**

Experts from various fields are interested in being acquainted with consumer's behaviour. There were developed, in different moments, several theories and models which tried to explain what was going on, especially at the level of specific psychological processes of the human being. Among the best known in the literature, we remember: the marschallian model, the pavlovian model, the freudian model, the veblenian model, the hobbesian model. We can say about these models that they were created independently, their authors framing

the consumer behaviour only in the context of a science. Specific to marketing specialists is the concern to approach these theories and models not individually, but in an integrated manner, making even some adaptations of them, and, on this basis, they have created modern and advanced analytical models of consumer behaviour. [6] The large number of concerns of specialists from various scientific fields to figure out the mechanisms of consumer behaviour could explain the lack of a universal accepted definition. [7] We retain the opinion that for marketing as a science, the consumer behavior is represented by "all the acts of decision taken at individual or group level, directly linked to obtaining and using goods and services, in order to satisfy current and future needs, including decision-making processes that precede and determine these acts" [6, p. 154] Most of the times, marketing research regarding consumer behaviour seek to find explanations/answers to the following issues: why consumer choose a product/service /a place/a time or a brand/a company; from where, how much and how often he buys; who informs and influences him in making purchasing decisions; which are the reactions after consumption, but also many other issues that the consumer does not want or can not express them. The shaping and action of consumer's behaviour is the result of the synergetic effect of the action of two major categories of factors: endogenous (related to the human psyche) and exogenous (those who act outside the human being). In this context, for the consumer's behaviour research, in marketing, the focus is on the interdependence of perception, information, attitude, motivation and actual behaviour processes. Each one of these has a well defined importance, but for the topic developed in this article, we consider it appropriate to present, in particular, the information/learning process. In the current stage of marketing development (3.0) it is recognized that we address to a more educated, more informed, more demanding consumer, who is more connected with his peers and more involved to collaborate with organizations to create value through cocreation of products and services. [5] The process of information/learning includes all the elements which helps the consumer to know better the products/services and to

become aware of the consequences that his future buying and/or consuming acts could have. It is considered that the process of information/learning manifest during the entire life of the consumer and marketing contributes significantly in this direction. As main categories of marketing activities which support the process of information/learning, we can remember: communication/promotion both by classical techniques, and by modern techniques (Internet, social networks), influencing/changing behaviour with the help of other categories of participants in the market activity (counselors, prescribers, opinion leaders), making the customers loyal, which determines repeated acquisitions/consumptions, but also the development of some logical reasoning. It can be observed that the process of information/learning is the component that influences all the other processes of consumer's behaviour. [6] In these conditions, marketing has a great responsibility in terms of information delivery and the way consumers process it. [8]

The learning process shows changes taking place regarding consumer's behaviour, as a result of the experience gained from his actions. Learning theory specialists say, that utmost, human's behaviour (implicitly the consumer's behaviour) forms itself by learning and not instinctively [9] In turn, learning is often an unconscious process of accumulation of knowledge and skills development, gained through experience [10]. For the marketing activity, learning has a well defined importance and is used as a technique of influencing and changing consumers behavior. It can be said that someone has learned something if, as a result, a change of behaviour occurs. "Learning is defined as the sum of behavioral changes that occur in time, as a result of conditioning with the help of an external stimulus" [10, p. 70] On what is concerning the study of the learning process, it is considered that there are two approaches: one based on the stimulus-response relationship, which involves the classical and the active conditioning, while the second refers to the theories of knowledge, and in this case, the conscious thinking holds the important role. The classical theory of learning belongs to the Russian researcher Ivan Pavlov. The

classical conditioning he demonstrated in the case of a dog's behaviour is also valid in the case of people and is intensively used by marketing practices. [10] Thus, repeated dissemination of advertising spots determines the consumer to associate, for example, a certain song with a product/brand and to react. In the case of active conditioning, it is taken into consideration an active behaviour of the consumer, meaning that through repeated actions, he is trying to achieve either a desired effect or to avoid an unpleasant situation, so he is able to influence the answer. Active conditioning can be used in the purpose of making consumers loyal. Both the classical conditioning theory and the active conditioning theory believe that the learning process is made automatically. In contrast, the cognitive learning theory accepts that learning is a complex and conscious process. For marketing, this theory draws the attention that it is important to know not only "what" the consumer learns, but more importantly, "how" he learns. Knowing the mechanism of cognitive learning is useful in anticipating reactions/answers/changes in the consumers behaviour. [10]

## 5. Conclusions

It is obvious that the current structure of the market conjuncture causes changes in the consumer's behaviour. In the marketing research are addressed in a systematic manner, issues related to the knowledge of the factors that determine consumer's behaviour, viewed individually but also in groups, in an interdependence with the offer (current and future) of products and services.

The settlement on the principles of sustainable development of the production and the consumption acts as a mandatory requirement for all categories of participants in the market activity. Marketing specialists have realized that they can not conduct profitable activities anymore, unless they offer value to the customer and come up with solutions to society's problems. Sustainable activity must become a component of competitiveness and a positioning strategy of the company.

Consumer's behaviour, resulting from the interdependent action of a large number of factors is in a permanent change. Companies

marketing actions are oriented, on one hand, towards knowledge, anticipation and influence of consumer's behaviour and, on the other hand, towards developing offers of products/services that ensure sustainable development. In this context, it becomes increasingly important the concern of companies to combine properly promotion/communication techniques, in order to inform/teach the customers and to improve economic and social performance.

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## Postal Services Marketing

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### Abstract

*The liberalization of postal services, the emergence of new postal operators, creating postal markets, as well as the growth and diversification of human needs, have led to a rapid development and diversification of postal services.*

*Postal market is a market governed by the same laws as other economic markets, with the essential postal services and virtual stores that are covered by specific legislation.*

*The two components of the postal market have great merit to contribute to eliminating discrepancies: between rural areas and urban areas, between rich and poor areas by facilitating the access of goods to the population of these areas, and on the other hand manufacturers of goods may be made in these areas.*

*This new function of the postal service, leads to a new postal strategy that is based on marketing.*

**Keywords:** marketing, services, mail, correspondence, operators

**J.E.L.** M31

### 1. Introduction

About postal service has been written very little, and "literature" is limited solely to technical legislation, standards and work instructions with regard to postal delivery mode, the legality and responsibilities of suppliers. Financially approach of postal service providers from all countries was "loose" they had an obligation to secure self-financing. In the new economic context these providers must ensure the greatest possible revenue to grow, must to maximize business.

The global postal network is a multinational network (made up of national networks of universal service providers from

all countries) and those individuals have a private network. "The abolition of monopolies, liberalization of postal services and ensure universal service led European Economic Commission to establish a structure for postal services" [1] is required a structure for postal services in the market given that there are two categories postal operators. If we take as an example the messengers' service parcel a parcel sent from one part of the Earth with destination elsewhere in the Earth goes through several national networks, and in the case of private providers, these travels in a private network.

### 2. Postal Market

"Postal market first developed market economy countries in Western countries in the former communist command economy begins to grow only after the change of political system and economy that" [2] our country functioned in the state postal monopoly is established progressive liberalization followed by specialized international for a. Postal market is a new market, and was formed as a result of the liberalizations of postal services, and it is in a rapid development due to the development of communications and means of communication which allow diversification of postal services.

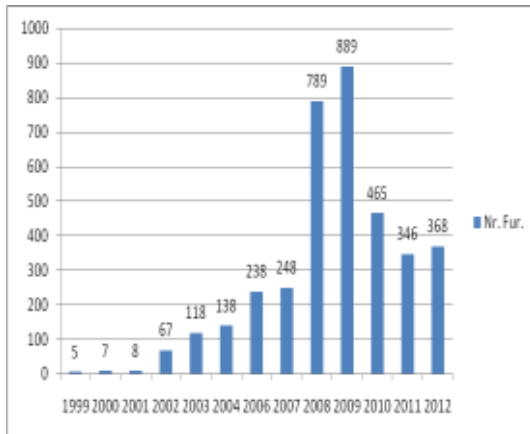
Doing an analysis of the evolution of the postal and telecommunications it can be notice that telecommunications services have developed faster than postal services, due to the fact that they had their own infrastructure enabling the transmission of messages.

Competitors do not have a postal network covering the whole national territory but new communications infrastructures allow soon building their own networks.

Significant increases in authorizing postal service providers were recorded in 2008-2009 due to changes in legislation and removing barriers to market entry, amend the legislation to authorize private individuals

immediately after this period of decline began not as a result of market stabilization but as Following the economic crisis since 2010 recorded significant declines among postal operators up to 45%.

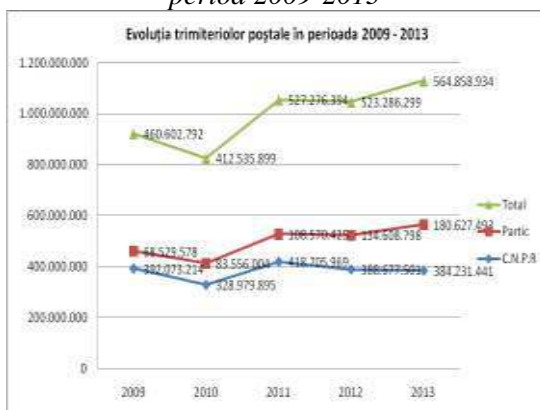
Figure 1. The evolution of postal service providers from 1999 to 2012



Source: A.N.C.O.M. Report

The evolution of postal 2009-2013 period shows the potential of the postal market in Romania (fig. 2) show the postal market in Romania, which has not seen decreases the level of the decrease in the number of postal operators. This shows that in a very short time to consolidate this market and postal operators start to position themselves and to stabilize in some segments.

Figure 2. The evolution of postal in the period 2009-2013



Source: A.N.C.O.M. Report

### 3. Implementation of marketing in postal services

Liberalization of postal services and the creation of markets led to loss of monopoly status set new strategies to prevail postal marketing.

Marketing in postal services is young and appears around the 70 undergoing a rapid development to date by following three phases.

The results of this strategy have brought benefits for postal services.

b) the second stage - occurs sometime in the ' 80s, in a form more evolved when the postal service providers from advanced countries introduce concept of marketing. New marketing strategy develops two main directions:

- providing postal services to move towards the beneficiary and to satisfying its needs;

- organizational and financial support to promote marketing in postal services to be provided by the State.

This strategy sets out the core activities consisting of:

- improve service quality traditional high paying attention;

- distribution phase, to meet competition;

- introducing a range of new services;

- automation and mechanization of postal services;

- introduction of informatics in banking and financial services

c) the third stage - starts around the late 1990s and continues today. Postal services are no longer the monopoly status, losing the protection of the economic liberalization has led to changing the entire structure of them thus making them compatible with market conditions.

competition has yielded positive results.

These changes with positive results were largely due to technological breakthroughs, but also legislative changes.

Developing a marketing policy to streamline the postal services should take into account the target group can be addressed: legal or natural persons; service or package of services they offer.



#### 4. Target group in marketing strategy

■ corporate strategy - economic development of industry and services and had great influence on postal services, the emergence and rapid growth and diversification of commercial mail, messaging and money transfers.

Development of commercial correspondence and private correspondence led to the development of postal equipment industry: machinery stamped mailing machines (mechanically stamped) letters, letter sorting machines and complex machines that perform several operations printed: printed, inserted into envelopes, letters sorted on localities and distribution distances. With such facilities the marketing people can offer:

■ a full service package of operations given the fact that the sender is required to prepare correspondence were a package. Example if the electricity supplier is the largest supplier of utilities, it is obliged to prepare correspondence:

■ printing bills put them in an envelope and submit them to the postal unit is obliged to take to put mechanical stamps to sort and distribute. If an inherently separate preparations of irregularities and requires more time. For such a negotiation marketing people must consider: marketing supplies: paper and envelopes, the labor of preparing the sender and postage.

■ a package containing: presentation and distribution of electricity bills and collecting their commission.

■ individuals - in policies do not receive marketing strategies for individuals, this being considered as a drawback in times of crisis as large consumers of postal services except utilities were affected by the crisis, a phenomenon that has been passed to service providers postage too.

The economic crisis has drawn two clear directions for the universal service provider, mandatory strategy for individuals not only as a backup strategy but as a strategy aligned fore and UPU strategy aimed at developing financial services and trade via email.

The strategies should include individuals insured packages or package service operations.

Financial strategies aimed at both financial transactions are multiplied due to

migration of staff, and banking operations for countries with bank post. Development on financial transactions is a goal of the highest international for to ensure the transfer of money from citizens working abroad and their families.

Providing people with money transfer services can only be achieved by the national postal service provider as it serves the entire national territory.

Services are the most preferred financial transfers of population and can be achieved with the lowest expenses if a general financial strategy that includes a strategy of multiple cash to the central post office.

The rural population largely benefit from the services provided by banks in the nearest town.

A post office treasury strategy must include the operations of financial receipts from the public in order to provide the necessary cash, otherwise these services can be provided with high costs.

Trade strategies by mail is a new global strategy which seeks the elimination of disparities between urban and rural areas and addresses the interests of producers of goods that can penetrate the rural areas where there are shops and interests of rural population which may have access to desired goods.

For the development of trade may be provided by post service packages complex comprising several benefits: Example the post can provide for a supplier of goods by registered mail distribution catalogs, leaflets or any material advertising the sale of a product, the same service can receive public goods orders from the specific formulation.

Through messengers service distributes the product requested, and the population through service delivery mandates levied the equivalent property. These new service type is coming and in support of the urban population in small towns or big cities.

Presentation of postal services has been a subject of study for all countries because the presentation schedules were downtime or poor load. On the other hand, the volume of items submitted to a 8-hour period was limited to these.

Technical solution was the installation of vending machines (office move) to the post office to carry out operations presentation 24 hours 24. These cutting-edge technologies met and provided that access to information

24 hours in 24 this was much time provided by the letters street mailboxes and public telephones.

New technologies have enabled customers to buy stamps -and the street jukeboxes for franking letters and modern electronic letters can be stamped and can execute operations.

Liberalization of services, emergence of new postal operators particularly those specializing requires universal service providers to retain services in this area and therefore this category of customer portfolio such items are the highest costs and to mitigate them by increasing the number of references mandatory task for managers on facilities and services for marketers to make these attractive.

### **5. Postal services in marketing strategy**

Postal services have evolved and diversified in their entire society, stemming from the status of monopoly services are self-funded postal tariffs are maintained unchanged for years without having to register losses since the economy was stable and there was no competition.

Case study according to (ANCOM) National Regulatory Agency for

Communications and data collected from a post office in pursuit of a case study on the important services offered to the public: registered mail, messengers, express mail and financial services.

■ mailing-service study on the correspondence is divided into two areas: private correspondence that provides communication and commercial correspondence.

Private correspondence is an essential element of human communication, every country has the obligation to ensure access to the communication and the government must ensure that the supplier's facilities for the purpose of alleviating the costs.

In Romania the Universal Service Provider - the national company Romanian Mail - mail provider is simple, even if working under the status of the economic function of channel of communication should be maintained with the obligation to ensure access to information at affordable prices.

Commercial mail is both mail businesses and private correspondence sent for

economic purposes or in the courier system.

Recorded correspondence in the period 2012-2013 by number of 522.927.587 pieces (fig. 3) references representing a 68,09% of the total postal traffic (564.258.934 pieces) and 92,68% of the internal postal traffic (reference 530.106.224).

Romanian mail recorded the highest traffic in delivery letters.

In this situation it appears clear that Romanian Mail is the market leader, but this position is not a conjectural due to marketing strategies.

The requirement to ensure access to communication is only universal service provider who is authorized and entitled to collect the difference in costs between the income received and expenses incurred.

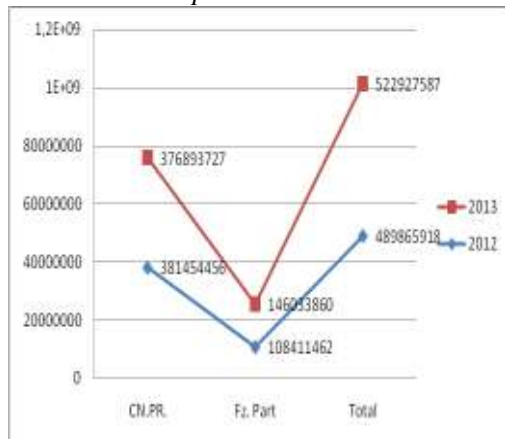
This obligation should be approachable price charged in our country such a rate is 11eu/letter of first stage of gravity, their distribution costs being very high especially in rural areas.

The financing of the universal service is governed by the international forums and is set only for the designated providers of private providers are not interested in that class because they can't charge the cost difference.

In this volume of shipments are included and the particular ones that fall within the scope of universal service and are not highlighted nor pieces or social environments, urban and rural areas where the costs are very high.

The absence of this evidence clearly shows that are not highlighted by the Romanian Post C.N. F.S.U. no records are not set any cost benefit to claim the difference in costs in order to eliminate losses.

Figure 3. The evolution of mail letters during the period 2012-2013



Source: A.N.C.O.M. Report

Instant messengers is a service subject to competition in the postal market to all FSU and both private operators.

Growth of this market segment is not a result of postal marketing, is the result of economic development and in particular to trade by mail.

Postal service provider must have the specific features of this service, the best specialists to compile a package of services and good marketers who know how to sell this service.

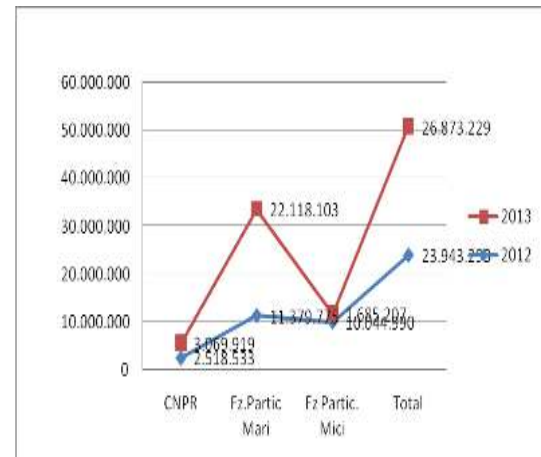
Marketers in the field of postal services must have permanently updated strategy so as to cope with the competition.

In the dynamics of mail messengers (fig. 4) shows the postal operators in the postal market. Position 1 is occupied by the biggest 10 postal operators, second position of small postal operators and 3rd position is occupied by the Romanian Post.

Analyzing the positions of postal operators in the market we can find the strength to this market penetration by new private providers and losses recorded by the traditional postal operator.

The messenger is very underdeveloped in rural areas because the couriers' particularity does not cover this environment and C.N. Romanian Mail through the current network failed to develop this market.

Figure 4. The evolution of mail messengers during the period 2012-2013



Source: A.N.C.O.M. Report

This segment of the market, express delivery is much disputed by competitors too because it has the highest rates for a simple letter for the first stage at the C.N. Romanian Mail is 11 lei as opposed to a simple letter from the same supplier that is 1 leu.

Increasing the speed of movement is national permanent and global sustainability have been looking for it, but its implementation has depended on the communications infrastructure of communications routes and means of transport.

The dynamics of the express references to 2013 (fig. 5) can be seen first disputed receive 10 major private postal operators with a rate of 98, 69%, and the remaining operators (C.N. Romanian Mail and small operators) have a segment of 1, 31%.

References may express mail or messengers.

Quality accounting process we see as providing users complete accounting services, accurate and reasonably priced accounting information [4].

Development of express shipments during the period 2012-2013 has risen overall by 52, 61%. Huge growth of this market segment is mainly due to the first infrastructure communication routes and means of rapid transportation of postal operators.

Express courier service was originally developed solely in large urban centers and the liaison between the towns of these

specific policies and by marketing to market development from urban to rural areas.

Figure 5. Development of the express services during the period 2012-2013



Source: A.N.C.O.M. Report

financial services - is a category of postal service with tradition who experienced a growth and diversification as well as other services, being rendered only by the universal service provider, which is housed in a huge competition with banks or other financial institutions or agencies.

But their development is influenced by three infrastructures: transport infrastructure (roads, communications facilities, which must be specially equipped for transporting values) of transmission infrastructure (transmission routes, means of transmission) and a private bank.

Transport routes and means of transport are needed both for transportation postal and transport of cash needed to pay both postal and electronic transfers.

Network transmission and transmission constitutes its own infrastructure.

Private Bank for postal services is the Banc Post is very countries that have this banc in their organizational structure. C.N. Romanian Mail has no such structure in the Bank; the Bank with the name Banc Post has no connection with C.N. Romanian Mail.

Financial services provided by C.N. Romanian Mail with cash receipts and payments are: internal money transfers in payment; E-mandate; warrant online. foreign money transfers: international postal mandate; Euro Giro; Euro Giro or international cash; Euro Giro or cash on

delivery (COD); Western Union cash collection: utilities; Telecom, credit rates, various.

## 6. Study Case

It was realized a study in a rural post office serving a single village at the commune with a population of 5062 inhabitants and 1954 families, achievements of the receipts and payments.

Was a case study in this area since A.N.C.O.M. statistics does not show data for these services?

The study was conducted on November, December and January 2014 2015 shows that the amount paid is higher than that charged (fig. 6).

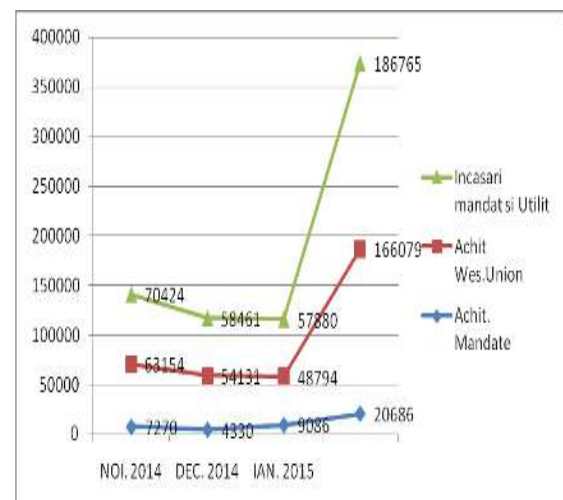
Overcoming payment shall be determined by transfers abroad of Western Union municipality being leave many citizens working abroad.

Numbers of utility bills including fixed and mobile telephony are growing by a specific marketing policy and facilities could increase the number and amount of proceeds.

Revenue growth at the level of payments would reduce the costs of payments: Bank fees for charges on cash requirements, expenditure on cash processing and transport plus transportation risks.

According to the study were collected utility bills at the rate of 63%.

Figure 6. The evolution of the cash transfers in the period November 2014-January 2015



Source: own statistical data

## 7. Discussions

Specific marketing provider of universal service in the new economic context must be constitutive component of business policy, which is driving the strategy and operational programmers towards the market economy.

From the data of this study it can be concluded that private operators have experience in market economy, they have been developed through the promotion of economic policies based on marketing strategies and profitable services, e.g. at the express services where a reference in first stage weight is charged with 11 lei as opposed to the same reference on the same rung of weight that is charged with one leu.

They were equipped with technology and fast means of transport. Postal operators have established means of transport for all terrestrial Earth, sea and air.

Financial transfers market developed by the banking system is in strong competition even within the banking system as its proceeds can be maximized with minimal expenses, cash transfers have little cost, in a very small time compared to the mandates requiring postage expenses with transport and require more time from presentation to the acquittal.

The financial market through receipts (utilities, taxes, etc.) both at the headquarters and subunits making postage at home if it were developed by the universal service provider would be able to maximize revenue at the unit level.

Proceeds through the postal network would allow reduction with bank fees on cash transport operations at access points for cash payments, would eliminate the risk of transport and financial revenue boosts by keeping the money in the accounts.

## 8. Conclusions

Postal market grows by itself due to the multiplication of social needs and postal operators through their marketing strategies have to adapt to these needs.

To meet the market challenges marketers must act in the internal environment for the training of employees in order to increase the quality of services and in the external environment for their promotion.

From the held market shares can be

observed clearly who practice the real marketing, the top ten private couriers are specialized couriers, consecrated and acting only in the context of the work market analyses confirmed their progress in so short a period.

Those who have not practiced a competitive marketing got out from the market and small private couriers and Romanian Post is harmless. Competition occurs between the first 10 major individual's competitors.

For correspondence which has the lowest rate marketing policies should aim at increasing their number so that expenditure on means of transport in rural areas are more subdued and management policies to establish fair costs for collecting the differences of costs: To post messengers the transport needs to be insured to the place of residence of the recipient.

For express mail which is the benefit of growing competition and which has the lowest market share of a market study should be followed by appropriate facilities investment on the express.

Financial services where competitors are very strong in urban areas and less strong in rural areas, facilities on computerizing the benefits are determined.

If rural post offices were equipped with electronic equipment and antennas covering the commune and postmen with electronic readers that can make payments on land revenue post would become the market leader.

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## The Management of Institutional Communication in the Public vs. the Private Sector

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### Abstract

*We spend a considerable amount of time at the workplace, a fact which emphasizes the importance of the atmosphere in which we conduct our work. The efficiency of any employee, regardless of the position held within the organization, largely depends on the way in which s/he communicates with the others. A good internal communication, based on sound criteria and strategies, implicitly leads to an identical relation with third parties or with the beneficiaries of the institution, both in the public and the private sectors. This study aims to emphasize, the elements underlying a good intra-institutional communication and, on the other hand, the impact on the target public, by taking into account the volume, the quality and the dissemination of information, as well as vital communication features such as purpose/objectives, the manner in which communication structures are established, the adaptation of the information systems and the creation of flexible implementation structures.*

**Key words:** internal communication, external communication, organizational aims, communication aims

**J.E.L.** M30, M31

### 1. Introduction

One of the most difficult things to accomplish is an effective communication, particularly in the workplace. In recent years, a superior communication, adapted to the needs of the organization, both internally and externally, has increasingly been associated with professional performance, as a clear institutional objective. As in the case of personal relationships, or couples, communication is the first step towards conveying and receiving information, needs or requirements.

Communication takes place on several levels: internally, horizontally, with colleagues, vertically, with the leadership, verbally or non-verbally with everyone, externally, whether we refer to elaborate and processed messages, therefore targeting a specific audience, or to personal messages, addressing a restricted circle. In the context in which organizations, regardless of their field of activity, seek to obtain profit, it was shown that they pay increasing attention to external communication.

Feedback is, ultimately, designed to measure the impact of the services offered by a given institution, to its target audience. While it is a usual practice to embellish the message communicated externally, not the same can be said about the attention paid to internal communication. It is clear that a performant internal communication cannot take place in a context in which very few organizations are concerned with the development of information transmission channels, the same as very few institutions

focus on communication comfort, regardless of the position held by employees, management or executive positions.

## 2. Material and method

This study aims to analyse the manner in which messages are sent at organizational level, both in state and private institutions, internally as well as externally. The study was conducted in Northeastern Region, during a calendar year, i.e. 2014, in 20 state institutions (local councils, schools, universities, hospitals, etc.) and as many private institutions that have direct contact with the wide public, such as cable companies, telephone companies, hospitals and private universities. With the consent of the respective institutions, the communication relations at the level of the institution and their relationship with citizens were subjected to analysis.

## 3. Literature review

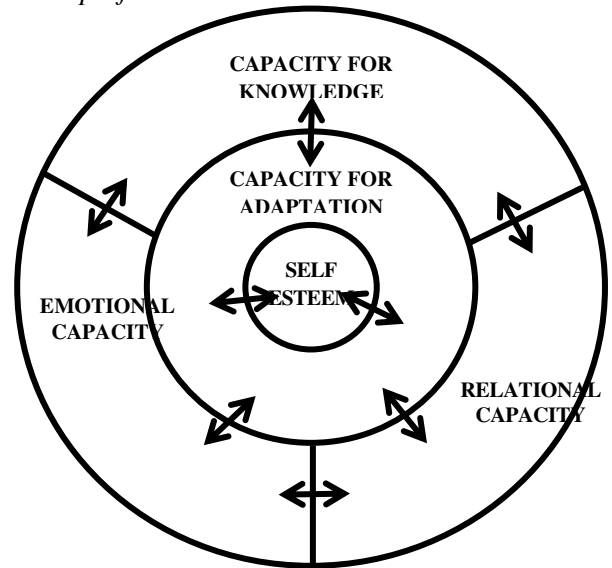
Institutional communication is a new dimension in performance management, especially due to the development of informatics which created significant changes in the meaning of this concept [1,2].

For this reason, it should not be regarded only as an object of study, but also as an essential model present at all levels and in all structures of society [3].

Consequently, communication is instrumental at the level of social relation, as well as as a binding agent at the organizational level [4,5]. Moreover, it has been shown that the state can function from an economic perspective only through institutions [6].

Regardless of whether we refer to models of internal communication or of external communication, we must take into account, on the one hand, the means by which an individual or organization - as the sender - sends the message to the receivers and, on the other hand, we must consider the conceptual content of that information. [7,8,9,10] (Fig. 1)

Figure 1. The dynamics of the needs of a performant institutional structure



In order to obtain an effective communication, it is necessary for the specialist who sends the message to know how to meet the receiver's expectations and to intuitively perceive, even at the sensory level, his/her reactions, using well-established, verbal and non-verbal techniques, related to timing, empathy, persuasion or manipulation [11,12].

The purpose of this type of communication is to obtain certain reactions from the receiver [13], whether we refer to the various forms of internal communication within an organization, or to external communication with the wide public, which proved to be a consistent consumer of the product presented/'sold' [14].

On the other hand, the communicator should know that, once the message has been sent, it is irreversible and will be impossible to take back without a series of consequences, which in some cases could be major [15,16]. For this reason, the manager of the institution must not make public statements, at least not at the level of external communication, in order to also protect his image. In professional organizations, such messages are delivered only by communication specialists [17,18].

Not the same can be said about internal communication, in which the direct message of the manager to his collaborators is perceived as a way to confer or recognize their value, a model of open, collective management [5,19].

The internal communication within the organization, particularly when the message is sent vertically, top-down, is carefully analysed by the receptors, regardless of its forms of presentation [3,20].

The employees perceive communication as signals, which can be sent verbally, in meetings, conferences, presentations, or nonverbally, transposed by means of facial mimicry or gestures, as well as in written form: directives, orders, decisions [1,7,17].

Therefore, the accuracy of the content of the message and of the channel through which it is sent is of particular importance [11].

An unclear, ambiguous message can create frustration, dissatisfaction, a generally tense atmosphere which, understandably, cannot entail efficiency at the workplace [10].

This is very important to realize, and to abide by, given that, even in the case of performant communication, problems of message perception can occur due to the level of training of the employee, to his/her level of culture, character and behavior [20].

Organizational experience has shown that there are people, not necessarily few, who, before focusing on understanding the message, they either question its importance or its good faith. Those who "know it all" also belong to the category of reception errors [8,16].

They are those who either take words out of someone else's mouth, with phrases such as "I knew that", or jump to hasty conclusions before the message has been communicated in its entirety. Others hold on to a specific issue, unable or effectively refusing to listen until the end [12,14].

These are some of the most frequent communication errors which we encounter within various public or private institutions. [4]

Even if such communication errors are more visible in state institutions, they also exist in the private sector, only that in this context, of a restricted competitive system, employees control their reactions better, especially in bottom-up communication, when the message is sent to the leadership [13,15].

Taking these matters into account, it is safe to state that the quality and content of

the information differs from the sender to the receiver [5].

However, no organization can function independently, even if fixed internal rules are established in order to pursue a productive and efficient activity [16,19].

On the other hand, there is a global context to which every state or private institution must adhere in order to make their products known [17].

Market research is virtually one of the most effective instruments for an organization to realistically promote its own products [11].

This objective is part of the strategic external communication, which is absolutely indispensable to any institution which sets out to operate and develop following modern performance standards [19].

On the other hand, in a society undergoing constant change, both internal and external communication techniques ought to be reconsidered in order to ensure the consistency of the major objectives of the organization, so as to clearly identify the aims and needs of the organization they are representing [3,8].

One thing is clear: communication must not be perceived as an end in itself. Its existence cannot be perceived as self-subsisting, excluding a general policy the orientation of which is leading towards the achievement of the desiderata of the organization [5,15].

It is perhaps for this reason that the institution in itself and the communication established must be accepted as absolutely necessary instruments, intertwining and complementing each other, being two different entities at the same time [14].

This is also the reason why, as it was demonstrated by numerous studies, organizations must be intercommunicable and the communication must be organized [20].

#### **4. Results**

Commencing at the individual level and moving onto the organizational level, each of these two entities have established, throughout their existence, two types of communication: internal and external communication. The research carried out shows that most of the formal channels of



internal communication in private institutions were deliberately created, through a formal system of responsibilities, so as to establish and respect the hierarchical structure of the respective institution.

This type of formal communication is designed to send information both vertically, from the management to subordinates and the other way around, from subordinates to the management, as well as horizontally, between employees and departments with the same rank.

In the case of state institutions, the communication on the horizontal level is either absent altogether or it is too slow and often ineffective. This is explained by the fact that in some state institutions, horizontal communication is exclusively limited to informal channels, with no feedback, which can decrease the accuracy of the messages sent.

The vertical communication, from management to subordinates, typical of most of the organizations targeted in this study, was confined to sending precise directives and orders for each individual or department.

Only in some of the private organizations studied it was habitual to have periodic communication in which the staff presented, either directly or through individuals professionally authorized to do so, the company policy and the short-, medium- and long-term aims and strategies.

On the other hand, in order to have a feedback regarding the top-down information, it is necessary to also establish a bottom-up communication, from the employees to the management of the institution. In this way, the effect of the communications sent to employees, the extent to which they have understood the messages sent, can be best perceived, which can have a double effect: either the employees have a sense of the fact that they matter within the respective organization, or protests or smoldering discontent, most often due to lack of information, can be nipped in the bud.

On a different level of communication, even though it apparently does not have the same impact in the organization, horizontal formal communication is extremely important due to the relationships that it establishes between departments, especially if these are independent of one another.

One of the facts revealed by this research is that this type of communication does not function according to the role assigned to it and it is often the case that the relationship between departments is artificial, simulated.

On the other hand, even in such situations, the respective departments do not act independently; their work is most often mediated by the managers of the institution and the considerations of the employees working in these departments are constantly overlooked.

Another item that has been monitored in this study regarded the manner in which informal communication takes place in the institutions concerned. Usually, informal communication is spontaneous, created outside the official channels of information transmission. It is present in absolutely every organization and functions on a permanent basis; it is the kind of information along the lines of "rumors", "gossip", "have you heard?"

It cannot be eliminated but it can be countered by a strong and sound formal communication. If the informed employee gives correct feedback of the information received, the employee lacking the information provided by means of the official channels of communication will make his/her own unfounded assumptions, based solely his/her personal wishes and needs.

On the other hand, the informal contacts are the ones that improve the contact between employees. Despite the fact that this mode of communication is unprofessional, amazingly, it reduces tension within the organization, giving a sense of a very large "family".

The ability of a good leader to use both channels of communication with maximum efficiency, both in terms of rigor of the formal and the flexibility of the informal one, intervenes in this case.

Usually, every manager, whether of public or private institutions, must have a communication plan containing a series of well defined steps at all times.

The organization plans must take into account both the human component – who is in charge of what – the work stages and the time frame in which they will take place, the funds allotted, the potential problems that might be encountered.

These stages can be set by all the teams involved in development, in all directions of

the respective institution. Otherwise, institutions may resort to well-established communication plans.

Most often, the image of an institution overwhelmingly depends on the manner in which the respective organization knows how to "sell", namely to promote its products as efficiently as possible. In such situations, an extremely important role is played by the external communication specialists. Despite being a new profession, it tends to become indispensable in today's society to any organization.

The study conducted shows that the "communicator" of absolutely every state institution with the wide public was designated as manager or director of that organization, under the pretext that s/he has the greatest credibility.

This choice is the result of the fact that, erroneously, the manager is believed to be the best qualified person to provide information about that institution. This is entirely wrong, and it is imperative to have a communication specialist dealing with exterior communication, a professional trained to support the interests of the organization s/he represents and to predict market demand.

Only a communication specialist is able to establish and maintain relationships with the outside, due to the fact that s/he is trained to represent the organization of which s/he is part, and knows how to offer the products of the organization in an attractive package.

Moreover, this attitude is typical of most of the private organizations which employ professional communicators.

They must control all three types of external communication, namely: operational external communication in which the members of the organization interact with the outside; strategic external communication, the aim of which is to achieve a real communication network; external marketing communication, consisting of advertising or public relations services. In this context, it is imperative to take into account several criteria in the framework of a performance systemic structure, such as: every individual's knowledge, his/her affective and emotional capacity and, of course, his/her relational skills, all of which form a unit.

## 5. Conclusions

Although external communication must represent the major goal of every organization, none of the institutions established, during the time in which this research was conducted, a plan comprising complex, continuous and well-defined stages by means of which to promote the organization to the public.

Both in state and private institutions, top-down formal communication predominates, limited only to conveying directives and instructions.

Throughout this study, horizontal communication was almost entirely nonexistent in public institutions and almost entirely inefficient in the private ones.

In most institutions where this research was carried out, and especially in state institutions, the information system was frequently confused with the communication plan.

The research revealed the fact that organizations pursue factors such as volume of information, quality of information, as well as dissemination of information, however, one of the most important factors - feedback - is missing altogether from the equation.

Informal communication is used in absolutely all organizations which are the subject of this study. Only in the case of very few institutions, all of which are operating in the private sector, informal communication is correctly countered by continuous, proper formal communication.

Last but not least, in the case of state institutions, the messages from within the organization are conveyed to the wide public or to other organization in a completely erroneous manner by the leadership of the respective institutions.

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## Increasing the efficiency of Chamber of Commerce and Industry from Brasov by using information technologies

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### Abstract

*The paper aims to present an information system used at Chamber of Commerce and Industry from Brasov, in order to increase the efficiency and effectiveness of the management.*

*The study aims to focus on the differences between the existing system and a new one, integrated, more efficient itself and more flexible.*

**Key words:** Information, System, Chamber of Commerce and Industry  
**Classification J.E.L.:** D80, D84

### 1. Introduction

An information systems regard computers, people, information and flows [1]. A system is an ensemble of interdependent components with a dynamic interaction, based on established rules, in order to achieve an objective.

Every organization has three components: management system, information system and operational system.

An information system is essential for an effective and efficient management, either for a company, or for a non-profit organization. All the firm's and non-profit organization's survival and profit/efficiency of the activity are defined by extensive use of information technology [7].

Information systems help organizations in order to have higher profit, return of investments and less time used ineffective. Organizations are also trying to become more efficient by transforming themselves into

digital firms by the use of information technologies and information systems.

One may say that today's businesses are trying to achieve some major objectives by the use of information systems: operational excellence; improved decision making; competitive advantage; and day-to-day efficiency.

Considering all these facts, the system proposed to be used at Chamber of Commerce and Industry from Brasov, an integrated one, will conduct to improved decision making by the more and improved access to data and information.

### 2. The information system

The economies based on knowledge and information are now recognized as leading to a new focus on the role of information, technology and learning in economic performance [4].

The information system has two components: the one regarding stocking the information and another one regarding processing the information.

The information system is a structured ensemble of elements functionally correlated for automation of the process of obtaining information and for grounding the decisions. The main objective followed by the introduction of the information system is ensuring the management the real and in time information, necessarily for grounding and operative elaboration of the decisions.

Elaborating information systems impose modeling the information system of the organization using formalism through which the reality and of the information system may be represented as suggestive as possible.

Complex information systems may be decomposed in subsystems, that may be decomposed in applications for different users, applications composed by programs written in different programming languages, as shown in figure number 1.

Figure 1. Decomposing an information system



Source: own processing

The systems, subsystems and information applications are information products called also software products. An information product is composed by programs that have access to databases and necessarily documentation for using and maintaining. These are made according to a methodology and a certain steps are necessarily to be made starting from specifying the needs and ending with implementing, exploiting and maintaining them.

Information system collects, stores, and disseminates information from an organization's environment and internal operations to support organizational functions and decision making, communication, coordination, control, analysis, and visualization.

Information systems transform raw data into useful information through input, processing, and output. Also, an information system provides a solution to a problem or challenge facing a firm and provides real economic value to the business [6].

Software and hardware specialists work together to design and customize the systems a company uses everyday [5].

The concept of information system gives high regard to the individual and his ability to use information [4].

Every information system provides information through data analysis, and the foundation of information system is the principles of management and its practices. Both information system and managers uses

analysis of a business, management views and policies, organization culture and the culture and the management style. All data and information should be generated in this setting and must be useful in managing the business. This is possible only when it is conceptualized as system with an appropriate design.

Information system was first impersonal, when each individual was supposed to pick and choose the processed data and use it for his requirements.

This concept was further modified when a distinction was made between data and information.

### 3. The present information system of Chamber of Commerce and Industry

At Chamber of Commerce and Industry from Brasov, the management system is composed by General Member Gathering, Management College, and, at executive level, Management Council. The operational system is the one to ensure current functioning of activities.

The information system has two components: the one regarding stocking the information and another one regarding processing the information.

The information system is a structured ensemble of elements functionally correlated for automation of the process of obtaining information and for grounding the decisions. The main objective followed by the introduction of the information system is ensuring the management the real and in time information, necessarily for grounding and operative elaboration of the decisions.

The information system of Chamber of Commerce and Industry of Brasov is made starting from the necessities of automation of certain activities of information system. Thus, the information system interferes with the flow of information of information system, contributing to increasing the quality of information, the speed of propagation and the duration of life.

The main components of the information system of Chamber of Commerce and Industry from Brasov are: data, information, information circuits, information flows, information procedures, means of using information – the ensemble of hardware and

software that ensure the information processing.

Having an activity oriented to offering specific services, the content of information basis of Chamber of Commerce and Industry from Brasov may be grouped as following: for the supply activity, for supplying services, for marketing, for accounting, for research and development.

The main services offered by the Chamber of Commerce and Industry from Brasov are: assistance and consulting in economic field, professional formation, commercial arbitration, general economic information and other intermediary services. All of these are reflected in the components of the information system.

The information system is composed by: information databases, hardware component, software component, methodological and scientifically basis, human resources and organizational framework.

Figure 2. The general structure of information network of Chamber of Commerce and Industry from Brasov



Source: own processing

The hardware component is formed by the network of desktops and auxiliaries for printing and scanning. The connections from the network are ensured by the active equipments like switches. These ensures the connectivity between computers, auxiliary equipments for the network like servers, according to the figure number 2, above.

The software component of the information system of Chamber of Commerce and Industry is formed by program system and applications.

Program system coordinates the way in which the components of the system works and offer assistance in functioning application programs. The system programs

used at Chamber of Commerce and Industry re Microsoft Windows and Slackware Linux.

Application programs used by the information system of Chamber of Commerce and Industry are of two types: local programs of equipments and network programs of the servers. Local programs are Internet Explorer, Google Chrome, Microsoft Office and Mozilla Thunderbird, graphic programs like CorelDraw X3, Adobe Photoshop C7, Adobe InDesign C7. Network programs are WinMentor and Legis.

A part of network programs are specific applications for the activity of Chamber of Commerce and Industry of Brasov, used within a single interface, Intranet portal.

The portal was created, partly from the necessity of many applications needed to be used simultaneously by many people and because of the necessity to a better management of information at every decision level, the necessity to adapt the software to the changes in information technology.

The logical scheme from the point of view of data basis uses, of the relations between them is presented in figure number 3.

Figure 3. The structure of databases of Chamber of Commerce and Industry of Brasov



Source: own processing

For the technical part of the system, the following elements were used: reduced costs for creating and maintenance, ensuring the flexibility from the point of view of applications, specific application of the Chamber of Commerce and Industry activity and the security of data.

Thus, this was developed on a web platform, through client-server technologies, having as basis a web server, MySQL and PHP programming language. The portal was

created in 2005 and uses 10 applications: correspondence, members, InfoFirme, programming the classes, internet forum, forms, newsletter, contacts, files and the tops of the firms.

All of these applications were made within the Chamber of Commerce and Industry of Brasov using different multi-professional working teams, according to the personnel that represent the beneficiary. They suffered modifications, according to the necessities.

#### 4. The proposed information system for the management of Chamber of Commerce and Industry of Brasov

The main applications of the portal may be out of date and the necessity of new and supplementary functions may be ensured only by concessions at the level of databases and using manual procedures, fact that is not according to the function of an information system. Also, the necessity of programming new applications is possible with the same mentions, making rebate from the integrity of the portal.

The main problems in the evolution of the portal as a component of the information system resides from two components: files structure and data structures. Thus there is a great redundancy degree of data, which determines a higher grade of difficulty in obtaining different reports both detailed and synthetically from the portal.

Figure4. The new structure of the portal



Source: own processing

In particular case of the portal, the information has to be found in a single point, a single database, the information may be generally called entities. The proposed structure of the databases is presented in figure number 4.

#### 5. The conclusions

Because of the nowadays changes, information system and the internet portal, do not offer the necessarily information from the point of view of quality and quantity. Applications and data structures were created in time, according to the necessities. The system evolves in time and is modifying existing information from the point of view of structure and volume, and this has to be reflected in software component of information system.

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## Prospects of Development of Dairy Products Market in Georgia

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### Abstract

The market of dairy products is one of the largest markets in Georgia. There are many companies in the country producing dairy products, although there is still high demand for imported goods on the market, which is caused by dissatisfaction of Georgian consumers with the quality of the national produce. The companies producing dairy products need to necessarily use marketing researches of the market in their business activities in order to make their products competitive with the imported one and provide the same conditions for them on the national market.

**Key words:** Georgia, market, Agro-marketing, Dairy produce,  
**JEL:** L66

### 1. Introduction

Business activity in the field of marketing is the means for using the economic and organizational methods of management with high efficiency and lies in the basis for forming and development of the consumer oriented market. The assortment of products is represented in thousands of sorts and there are millions of consumers who take decision on purchasing goods independently in order to satisfy their consumer demands. The industrial sector responds this demand by way of producing staple goods at acceptable costs. The consumer is the dominating force

which is at the power to determine the appropriate answers to the question: “How to produce and who to produce for?”

### 2. The role of agro marketing in the development of agriculture

Agrarian marketing, similar to marketing of any other industry, is characterized with its specifics, which is defined according to the specific features of agriculture. Outcomes to be received in this field depend on the natural conditions, the role and importance the goods are given, besides there is no concurrence of the working and production periods, nor in the seasons for the goods production and its receiving. Participation of the state in development of enterprises and manufacturing is another factor upon which the above results depend. The natural and economic processes are integrated in the agriculture business activity, creating specific conditions for exercising and organization of marketing.

Nowadays marketing is not sufficiently employed in production of agricultural produce. At the moment it is very important that the problems the agrarian marketing is facing with in Georgia be brought forth to the limelight. In the present research we aim specifically at studying the market for dairy products.

### 3. The role of dairy products in human ration



Production of dairy foods is one of the essential components of food industry. People consume different dairy products on a daily basis: butter, cheese, cottage cheese, milk, etc. Since consumption of these products is necessary for health, the demand on them is growing increasingly everywhere worldwide. Dairy farming has shifted from small dairy farms in villages to large-scale dairy husbandry and become an important industry in the entire field of agriculture. Dairy factories of today are equipped with the state-of-the-art technical devices producing a rich assortment of milk products and are striving for meeting the growing consumer demand to the maximum of it.

Dairy market of Georgia is one of the largest in the country. Milk is the product which, due to its nourishing value, is capable of replacing any food product, although it cannot be replaced by any other product. It provides all the necessary for the human body substances that are represented in their best proportions and in the easily consumable form.

The history of milk consumption dates back in the times B.C. Many a centuries ago Egyptians, Romans and Greeks put it to their service both as a food product and as a medicine. To different sorts of milk Hippocrates attributed different curing abilities; For instance, the goat and horse milk was prescribed for tuberculosis cure, the cow's milk – to cure anemia and other diseases. The great Arabian scientist Avicenna, living around a thousand years ago considered milk to be the best product for elderly people. The outstanding doctor of the 20<sup>th</sup> century M. Botkin saw milk the best cure for the heart and kidney diseases. It has been established that milk positively influences the nervous system.

The cow's milk contains up to a hundred essential components that are necessary for normal human development. Proteins, fats, sugars, vitamins, minerals, ferments and other substances are the main ingredients of milk.

In these days it is possible to produce more than 20 sorts of drinking milk. The sorts differ with their content of fat and the thermal treatment endurance. The types of milk are: drinking milk, boiled milk, protein milk, sterilized milk, vitamin-enriched milk.

According to their origin, milk products are divided into two groups: cultured milk and dry milk products. Yogurt is a condensed cultured milk product distinguishing itself with high content of dry, non-fat substances of milk. Kefir is renowned for its best absorption quality for a human body, higher than milk, since cultured milk products, due to their taste and smell better stimulate the secretory function of the gastrointestinal tract.

Cream, for its high content of fat, belongs to the calorie-rich products. Sour milk or matsoni is a Georgian national cultured milk product, which actively participates in digestion of food, vitamin synthesis and extraction of various toxins from the body.

Cottage cheese and products of curds are products received in the result of condensing pasteurized milk and removing serum from it. Easily consumable proteins, fats, minerals and other biologically active mixtures contained in curds and curd products give them high nourishing value.

One of the most popular milk products is cheese, which is the serum-deprived outcome of sedimentation after fermentation of the special ingredients through condensation. The sediment is collected together into a ball-like mass which hardens after chilling. The sorts that are most popular in Georgia are sulguni cheese, Imeretian cheese, guda cheese, melted cheese, factory-produced cheese and more.

Dry milk products are produced in the condensed or dry form. Dry milk products are milk powder, dry cream and condensed milk.

#### **4. Manufacture of dairy products in Georgia**

Due to the severe competition prevailing in the business of dairy industry, small and medium businesses are under high pressure. Some factories, depending on largeness and scales of the firm, are not able to ensure profit gaining in the main segment. The attitude in which an enterprise aims at creating a brand of its own and strengthening its positions in the premium segment setting long-term prospects for these, provide better chances for gaining profit. Success of a brand is tightly connected to the position it holds in the market. Although it should also be

mentioned that the market cannot boast of sufficient number of brands, notwithstanding the afore-said.

As we have mentioned it above, most of the milk products produced in Georgia are made of imported milk powder. Production of natural milk requires considerably higher expenses and therefore, producers choose to use cheap milk powder. In the country where food control has to rely on a good will, the consumers were supplied goods made of milk powder, often sold for the natural product.

Since 2010 all producers were obligated to write using large font “made of natural milk” or “made using milk powder” on the cream, curds, sour milk or matsoni, butter, cheese, yogurt and other products made of milk. This is the requirement of the Law on Consumer Rights, the relevant change to which became effective as of January 1<sup>st</sup>, 2010. The writing reading the mentioned, needs to be provided in easily visible and readable manner.<sup>1</sup>

At present there are up to 15 companies working for the dairy market and all of them are involved in high competition. Companies Eco-Food and Sante are deemed to be the leaders of the market. According to them, they share approximately 45-45% of the market, whereas the remaining 10% is left for Sando, Kobuleti Dairy Factory, Wimm-Bill-Dann and other companies. The company Sando, on the other hand, claims that it holds about 10-15% of the market. The great majority of the companies make their products almost completely of milk powder imported from foreign countries, mainly from Belorussia and Ukraine. This is both cheap and technologically much more convenient for the companies. Now the companies were faced with the choice they had to make: buy natural milk from local farmers and provide the labels on the products that would be profitable for them or make their products using the cheap imported milk powder and have the labels on their products promising no success to them.

From November, 2009 affiliated to Russian Wimm-Bill-Dann company in Georgia Wimm-Bill-Dann Georgia started dairy production.<sup>2</sup>The industry which is

located in Tbilisi, is provided with modern European technologies and equipped with the state-of-the-art machinery and devices.

The first stage of production was marked with the “Soplis Nobati” brand products, such as pasteurized milk, sour milk, kefir and sour cream, curds and yogurts. Soplis Nobati presents its products to consumers in innovative packing making both consumption and keeping of them simpler and easier.

The milk appearing in the Georgian markets during the summer period is awaited both by the dairy companies and individual enterprisers with equal impatience. Using this milk, they make cheese without any procession and pasteurization and this cheese is later sold in the same local markets. Demand for milk here is high throughout the year, although Georgian cattle breeding is not developed sufficiently to meet such demand.

## **5. The research of dairy products market in Georgia**

The relevant survey has revealed it that these products are subject to seasonal changes. Depending on the natural and weather conditions, the high milking season lasts from May to August, going on a slow decline afterwards and over the December – April period is decreased to 40%. During the low season farmers use the milk for their own needs and home milk sells for the maximum price in this period.

Factory-produced milk does not depend on the seasons and its cost as well as the volume is stable throughout the year. It should be mentioned that the milk factories themselves encounter problems in buying milk which practically cannot be obtained from December to March. The amount of the milk bought over the months of May – June is maximal, but from August to November – the amount gets decreased twice. The milk factories suffer a harsh deficit of milk and substitute it with imported milk powder.

The surveys conducted by us (100 persons surveyed) have demonstrated that 86% of those surveyed were dairy product consumers, while 14% did not use them in their diet at all. Sante and Eco-Food with the corresponding 43% and 14% respectively are the mostly bought brands out of the local industries. Since dairy products are daily consumables, the area and conditions of the

<sup>1</sup>[www.ambebi.ge](http://www.ambebi.ge)

<sup>2</sup>[ww.economy.ge](http://ww.economy.ge)

goods is quite important. The products should be delivered to the specific place at exactly the specified time where and when it is necessary for the consumer. For this purpose, various options of delivery are engaged to supply the goods to the market, convenient and comfortable conditions are also created in order to ensure prompt delivery of products to their buyers. Dairy products are sold in small-size shops as well as in supermarkets. From the results of the surveys we can judge that 46% of consumers prefer buying goods in supermarkets, 27% in their local shops, 20% as practicable to them in the moment and 7% in market areas.

## 6. Conclusions

Despite the high culture of dairy product consumption in Georgia, national production cannot meet the consumer demand. The consumers are dissatisfied with the quality, as well as the quantity and improper prices of the produce. Many consumers (44%) do not use products of the same producer company, as none of these companies is considered by them to be fully reliable and do not have a credit of stable quality guarantors among them. Georgian consumers of products, much as before, when buying goods, prefer its quality over the price (although it implies that the price should be adequate to the quality of the product). Low-quality product on the market may lead the market to losing the potential consumers. Notwithstanding this, most of the respondents think that development of dairy industry has good prospects in Georgia.

It is true that, as different from many other agrarian industries, dairy industry is moving forward at a good stride in Georgia, but still, there are quite many problems and resolving them requires support from both the private sector and state equally. It is necessary that the economic, as well as the political environment in the country be stable and peaceful, to make Georgia attractive for foreign investors. The more new companies establish themselves in the country, the more local people will get employed in them and all this will have a positive impact on the country's welfare.

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## Service Innovation and Markets. Direct and Reverse Implications

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### Abstract

*This paper presents the service innovation near the market, highlighting the effects of one over the other and considering the implications in a sense and in the other. Innovation in services creates the markets by: application of the flexible service solutions, use of the scalable service models, continuously creating innovation adaptive strategies, use of the customer experience and providing the clear solutions to the customer requests. Market, in turn, by its features, provides the main incentive for the innovation and the knowledge flows necessary to innovate.*

**Keywords:** Innovation, Service Innovation, Market.

**Jel Classification:** L89, O31, O32, O33

### 1. Introduction

The most important sector of the global economy is the service. In most countries, it represents about 70% of the total production and the employment and it contributes about 75 % of GDP. The services can be found in all sectors of the economic and social life, they have several common attributes: intangibility, inseparability, heterogeneity, perishability and absence of property. These attributes are influencing the content and creating of the marketing policies.

Currently, the main direction of the economic growth is the service innovation [1], [2], [3]. The concerns in this field appeared since 1986 [4] and were divided into three distinct phases: the training phase (1986-2000) in which the main purpose of the research was the offer; the mature phase (2001-2005), characterized by the customer

involvement and the forms of organization and the multidimensional phase (2006 up to present) presenting the more diversified models highlighting the links between the innovation and the business strategy.

The representative analysis on the innovation in services was made by a lot of researchers such as: Miles [5], Sundbo [6], Gallouj and Weistein [7], Gallouj [8], den Hertog, Broesma and van Ark [9], Tidd and Hull [10], Wu and Wu [11], Guan [12], Siddike and Kohda [13], Zhu and Guan [14], Lee and Su [15], Bergman and Dachs [16] and others, the last four focusing, mainly, on the productivity of the service innovations.

The service innovation is a new or improved service concept. It always includes the elements which can be identified and systematically reproduced in other situations or environments and brings the benefit both to the manufacturer and to the customer.

A broader definition was proposed by Carvalho [17] in 2008: „Services innovation is mainly an incremental process, which includes two components: A non-technological component, dependent on the intangible human resources, organizational structure and factors that can add value to customer service (marketing, distribution channels); A technological component, nowadays inseparable from the first component, that depends on technology, especially Information and Communication Technologies (ICT)”.

The development of the service innovation is achieved on four sizes [18]:

- Service Concept: It refers to a new service concept for a particular market („a new value proposition”). Some service innovations include the intangible characteristics of the service, the others allow the creation of new organizing methods for the solutions to the problems (e.g. a new

type of the bank account)

- **Interface to the Client:** It refers to the innovation of the interface between the service provider and its customers (e.g. a greater number of self-service for customers).
- **Service Delivery System:** It refers to the relationship between the service provider and its customer (e.g. electronic delivery of the services, transport/packaging innovation). An emerging concept of the Service Delivery System is „the service factory” which represents a standardized and industrialized environment for the innovation/ development of the services.
- **Technological Options:** It refers to a new informatic technology for the services.

At presents there are three important trends on the service innovations:

- The services are based more and more on the intensive knowledge. An increase of weight of the creation, the design, the implementation, the management and the operation of the knowledge intensive services.
- The services are becoming more innovative.
- The innovation is usually focused on the non-technological forms namely the organization changes and new markets.

An important aspect of the service innovation is the market knowledge. Now, the customers are better informed and more demanding than in the past, requesting new products and services. The success of the service innovations depends on the reaction of the companies to the customer needs and the changing market conditions. Thus, the implementation of a market-oriented strategy is very important for the companies which want to gain the competitive advantage.

## **2. Types of service innovation regarding new markets creation**

A. According to the Oslo Manual [19], there are three types of service innovation:

- **Innovation in products:** This type is associated with the service design or the development of a new service
- **Innovation in processes:** It creates new or improved ways of designing and manufacturing services (e.g. the innovation in service delivery systems)
- **Innovation in companies:** It is about an

organizational innovation or a marketing innovation. The organizational innovation is the implementation of a new organizational method in the business practice, the workplace organization or regarding the external relations of the organization. The marketing innovation is the implementation of new marketing methods that involve significant changes in the design, the distribution, the price or the product promotion.

B. With regard to the intensity of the effects, the services innovation are as follows:

- **Incremental Innovation.** It requires adaptation, refining, simplifying and improvement existing products. The incremental innovations include also the innovations, similar to those of competitors, who are new to the firm, but not new to the market. The examples of the incremental innovations can be isolated actions, such as: quality improvement, energy saving, products recycling and reduction of costs associated with the equipment performance.
- **Radical Innovation.** It is characterized by the fact that the product performance is improved 5-10 times more, compared to the existing products. It creates the prerequisites to reduce the cost by 30-40, and the products have worldwide performance characteristics. [10]. An example of radical innovation is to create a specific quality management system for the firms.

The product performances are continuously improving, but there is always a threshold which should not be exceeded. Sometimes there is an adaptive innovation which removes one of the limiting factors and allows a revival of technology, taking advantage of all existing infrastructure. Most often, however, as limiting factors can be used a completely new technology.

C. With regard to the internal functionality and the attitude of the companies, the services innovation can be classified as follow:

- **Continue Innovation:** In this case, the institutions define the innovation as the company’s ability to resist to the continuous change of the processes, the products and the services.
- **Discontinuous Innovation:** In this case the existing services generate the new innovative processes in an unpredictable way by an unexpected jumps.

- **Cooperational Innovation among the companies:** It refers to the collaboration among the companies in order to exchange some ideas.

- **Strategic Innovation:** It refers to the orientation of the company in adapting to the change of the business environment, the new situations and the customer needs.

D. The service innovation can be classified into four types by combining the benefit type and the separability degree of the service. The benefit type may be the core benefit or a new delivery benefit or the benefit created as a hybrid of two other commodities. The separability degree refers to the service that can be used when it is produced or it can be used separately from the moment of production. Many services previously inseparable, now can be use in any time and place (especially due to the Internet).

This type of classification can help the managers to see how their companies innovate. Each of these four types of innovation provides a way to imagine a special approach for creating service innovation markets [20].

The four types of the service innovations with regard to the creation of new markets are:

- **Innovation by Applying a Flexible Solution:** It provides a new core benefit, can be consumed at any time and place. By applying flexible solutions the providers can identify the unsolved problems of the consumers and thus this type of innovation creates new markets.

- **Innovation Provides Controllable Confort:** This leads to the creation of markets, based on the new benefits delivery. In this situation, the customers can enjoy the benefits of services at any time and place.

- **Innovation provides Comfortable Gains.** This leads to a core benefit. It is used at the time and the place of production. This type of service innovation provides substantial gains, new experiences, direct benefits for the physical or emotional comfort of the clients.

- **Innovation provides to the Consumers Quick and Easy Access to the Services.** This provides a new delivery benefit, where the production and the consumption are inseparable. The companies creating new markets in the space given to the customers respect for their time and their physical

presence when using the service.

### **3. Directions contributing to service innovation and market succes**

Obtaining the success in service innovations is conditioned by the partial or total use of the following directions [20]:

- **Using scalable service models.** The scalability describes how easily can be extended a business model in order to increase significantly, the revenues without increasing equally the basic costs. Compared to the basic costs, the revenues increase exponentially and therefore the scalable business models offer a high profit and great opportunities. Many innovations in services are related to the intensity of labor and, so, it is difficult to scale. This is true when the use of the service is inseparable from the production. In such situations, both the employees and the value creation customers are in the center of the primary cost and therefore the productivity of these companies is essential for long-term profitability.

The service providers may consider a variety of the strategies to strengthen the business models:

- ✓ An option for the firms is to invest in the trading facilities and the security technologies, reducing the need to add a large number of new employees to serve an expanding market;
- ✓ Another option is to encourage the customers to carry out certain services;
- ✓ Another way to encourage the increase of profits is rewarding the employees productivity;
- ✓ Another alternative for the company is to create a separate version of the service by opening new retail offices with its own dedicated staff.

Some online businesses have transformed the traditional offline services, in scalable online versions. Some service providers have developed scalable business models with online stock brokerage, banking, auctions ann e-commerce.

- **Using the managerial experience provided by the skilled client.** The services are generally consisting in more contacts with the customer and discreet experiences than in manufactures goods. These experiences are based on three types of features: the functional characteristics, i.e. those relating

to the technical elements of the offer, the mechanical characteristics (e.g. a physical pleasant environment) and the human characteristics (that is the behavior and look employees). The particularities converge in creating a complex customer experience in terms of the quality and value of the offer. The management experience provided by the client is relevant to the creative market innovations, but not in the case of the inseparable services.

- Investment in the employee performance. It has been observed that the efforts of the employees in the services has a significant impact on the customer satisfaction. The success of the service innovators occurs when investing in continuous training of the employees in terms of education and training in the field.

- Continuous improvement of the operations of service innovators. The services are operations consisting in accumulating of hard work and capital, regardless of the type of benefit and the degree of separability of the service. It is difficult to catch the service innovators continually improving the operations.

- Build Strong Brands. A strong brand is important for the service innovations especially for innovation by applying flexible solutions. In the case of new services, the customers are faced with an increased risk because they must assess an unknown core benefit. The provision of the reliable basic services and the finding of the ways to connect emotionally with customers help to build strong brands.

- It is necessary an incentive to innovation. All types of innovation requiring a resources incentive can have new ideas and lead the transformation of ideas into a reality of the market.

- Provision of clear solutions at customer's request. The innovations can create new markets if they offer clear solutions to the important problems of the customers (e.g. saving time and effort) and if they can persuade the customers to try the products or the services and then to repeat the action giving a favorable verdict.

- Creating conditions to increase the customer accessibility to the new services. The creating of the new markets requires the clients' desire to modify their behavior and

the accessibility to the new products or services, in particular in terms of costs.

- Continuously Creating Innovation Adaptive Strategies. The strategic innovation is creating growth strategies, new product categories, services or business models to change the game business and to generate significant new values for the customers. The companies must trust the employees, to stimulate and to transform them into adaptive innovators to identify and to accomplish a continuous flow of innovation.

#### **4. Role of the market in the service innovations**

The market is the environment where each company makes its own experiments with the new products.

The processes occurring in the market are competition and trade. The market regulation is made by the legal framework, the formal rules of exchange, the informal rules and the routines [21].

The market establishes the rules and the competition environment and influences the behavior of firms and the consumers in the innovation process.

The market evolution can be disrupted by both the endogenous factors determined by the players and the market exchanges and the exogenous factors resulted from the market regulation and the competition.

The main players of the market are the producers, the intermediates, and the consumers of goods and the institutionalized actors (the institutionalized organizations, the public sector and the government having the role in the market regulation through the legislation).

Sometimes the radical service innovation requires the establishment of new institutions or market element which, of course, will also benefit other companies [22].

The main incentive of the service innovation is the market with all knowledge flows resulted by connecting the players belonging to the structure of this market.

The market orientation of the service firms often affects the innovation, the market company and the financial performance.

A customer orientation of the service firm often leads to incremental innovations, while a competitor orientation of this firm may lead to more radical innovations.

## 5. Barriers to service innovation in creating new markets

Scientific research [23] has noted the barriers in service innovation are strongly influenced by the type of service, the size of the innovating firms and the market particularities.

A high influence on service innovations have the following barriers:

- **Client Barrier:** The defining of the customer gives a perspective to the company. The development of services involves the orientation to customers integration in the innovation process. The customer participation in the innovation process requires them to have an adequate degree of competence in the field and to have some motivation.
- **Cultural Aspects:** The companies tend to be dominated by models focused on the products. Often, the service potential is not perceived and the organization requirements for services are not met. It is difficult to innovate when the driving systems are rigid and the managers insist to maintain their position or the organization members oppose their will.
- **Barriers in the Innovation or Organization Process** have also an important role. For the implementation of the new services, the companies do not have a systematic and formal development of the processes and the know-how methodology.
- **Network Barriers:** A difficult problem to solve by the innovative service firms, is to find, to select and to integrate the potential partners and to establish the adequate structures and processes to improve the collaboration without the extension of conflicts of interest. The network barriers will be high if the markets and the technologies competing or the same result are forced to work together.
- **Evaluation and Measuring of the Service Benefits (cost computations):** This category of barriers creates a major challenge for the innovative service companies. The diversity of the services and the participation of the external partners, including the customers (the customers is not able to assess the value of the service, especially before it is delivered) introduce a high degree of the uncertainty in determining the value of products.

## 6. Conclusion

The service innovation may be approached as a system and the central component is the market.

Many service firms make incremental innovations but few of them intend to generate new markets or reshape existing ones. For the companies focusing service innovations on this direction it is necessary for the managers of these companies to understand both the different types of service innovation regarding new market creation and the successful directions and the characteristic barriers of these innovations.

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# A Communication Platform Framework for E-Mail Marketing Using Model Driven Architecture

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## Abstract

*In recent years, the use of platforms for marketing communication (MCP) has become increasingly used in particular thanks to new technologies that are becoming more and more efficient and accessible. Among the platforms types, the most common are the email marketing oriented platforms. The purpose of this paper is to propose an email marketing platform architecture based on a modern communication technology. The modeling process is being done by using the Model Driven Architecture, based on its three specific abstraction levels, namely Computation - Independent Modeling, Platform - Independent Modeling, Platform Specific Modeling.*

**Keywords:** marketing communication platform, e-mail marketing, multi-agent system, cluster analysis.

**J.E.L Classification:** L15, M15, M31.

## 1. Introduction

According to Lisa Buyer (Buyer Group Company) [1], marketing activity “matches the right message/cause to the right person. You have to find someone who has a personal connection with your product, service or cause in a way that is unobtrusive and inviting”. To achieve specific marketing activities require the use of dedicated platforms through which the companies can reach customers and also to the potential customers. A marketing communication platform, according to AT&T Company [2], is defined as “a powerful capability for personalizing and disbursing marketing contents in an automated fashion based on the profile of the recipients. The capability encompasses email communications, collaterals, brochures, and any similar

communication media, where the contents of the communication material are customized based on the profile of the recipients and driven by a set of business rules that can be adapted to fit various scenarios”.

A main platform type is the e-mail marketing oriented platform. A major problem with this kind of platform is the amount of information that they have to deal it. So far, however, there has been little discussion about the way in which modern technology may improve marketing communication platforms capabilities. Papers like [3], [4], [5], and [6] are addressing this issue.

The MDA is used for the modeling of the proposed framework. MDA is a new software development trend, which in industry, in recent years, is more and more applied.

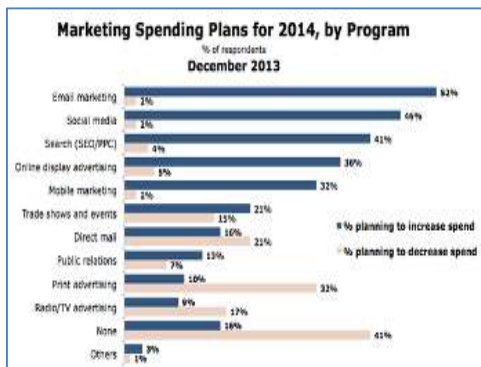
The paper has been divided in five parts organized as follows: the first part it gives a brief description of the elements used, elements like marketing communication platform and the approach used to model the proposed framework; in the second part, are debated aspects regarding the communication platforms types, the email marketing and the use of the multi-agent based technology in this context; in the third part there described the abstraction levels of used Model Driven Architecture; in the fourth part the proposed communication platform for e-mail marketing is described based on MDA approach. Some tasks are described, and also some diagrams (like entities class diagram, use case diagram, activity diagram, deployment architecture diagram, interface diagram) were depicted for a better model understanding; in the last part are mentioned some conclusion and future work directions.

## 2. Communication Platforms, E-Mail Marketing and Multi-Agent based Technology

In the literature, there were identified several marketing communication platforms types [7], based on their main functionality. These types are for advertising, sale promotion, public relations, personal selling, and direct marketing. Regarding the last one, the direct marketing, it comprises the following main activities: e-mail, electronic shopping, voice mail, telemarketing, TV shopping.

E-mail marketing (EM), according to [8] is defined a “directly marketing a commercial message to a group of people using email.” Papers like [9], [10] and [11] address the E-mail Marketing topic. Based on statistics (Figure 1), in 2014, 52% from respondents have decided to increase their investment in e-mail marketing and 46% in social media marketing.

Figura 1. Marketing Spending Plans for 2014



Source: <http://barnraisersllc.com/2014/02/surprising-stats-email-marketing-effectiveness/>

The advantages of using E-mail Marketing in relation to the classic mail way are: reduced cost for sending emails, a very short period of time needed the message reaches the recipient, easy identification of the email impact, email that contained an offer for a product / service. From disadvantages it can be mentioned the reject rate equal to 20% percent from the total of sent emails [12] and also the policies and regulations for classifying an email as spam. From companies that offer e-mail marketing platforms it can be mentioned Salesforce [13], Email Marketing Service [14],

ClickSquared [15], YesMail [16].

In the e-mail marketing communication platform context, the used of the multi-agent based technology become a must. The huge amount of the information that can be found on the internet by one hand, and by the other hand, the very large information quantity collected by the companies (regarding the customer’s choices, his e-commerce activity and preferences), become heavy to deal with it. Based on this, the multi-agent technology may improve very much activity like information extraction, data analysis, obtaining clients profile, customize preferences, negotiation process, coordination process between several entities, etc. Starting from the main functionality of a communication platform for e-mail marketing, in section 4 is modeled such a communication platform based on multi-agent technology, using Model Driven Architecture (MDA).

## 3. Model Driven Architecture (MDA) Approach

MDA is a relative new approach in software development. It defines three modeling levels of abstraction. These levels are Computation - Independent Modeling (CIM), Platform - Independent Modeling (PIM), Platform Specifies Modeling (PSM). Their tasks and artifacts are mentioned in table 1, according to [17].

Table 1. MDA levels

Level	Tasks	Artifacts
CIM	1. Analyze Business Domain	1.1 Domain Entities and Relationships 1.2 Entity Lifecycles 1.3 Business Processes
	2. Define System Requirements	1.4 Actors 1.5 Use Cases 1.6 Use Cases Scenarios
PIM	3. Define Architecture	1.1 Components 1.2 Package Dependencies 1.3 Deployments
	4. Perform Detailed Design	1.4 Use Case Interactions 1.5 Data Structure 1.6 Service API 1.7 GUI Navigability Map

PSM	5. Implement Code	1.1 Platform-Specific Components 1.2 Platform specific interactions classes 1.3 Platform specific interactions
	6. Implement Tests	1.4 Test Data Samples 1.5 Test Scenarios

Source: [17]

#### 4. Modeling a Marketing Communication Platform for E-mail Marketing using a multi-agent system

The communication platform goal for e-mail marketing is to process client’s data and to offer a customized offer based on their preferences via email. Based on MDA approach, some tasks are described, and also some diagrams were depicted for a better model understanding.

##### 1. CIM phase

##### 1.1 Analyze Business Domain

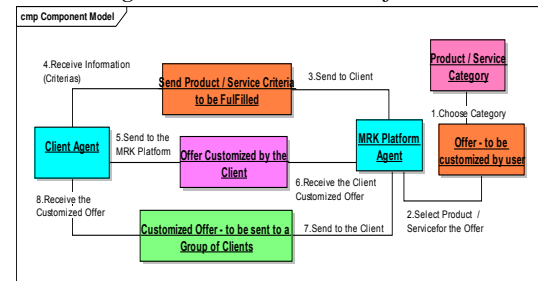
a) Domain Entities and Relationships – the most important entities were defined as follows: MRK Platform Agent (MPA) (the software agent that has to send messages to client’s agents in order to realize a customized offer), Client Agent (CA) – a software agent that has to receive messages from in order to offer the client the possibility to express his preferences regarding a product/ service, Offer to be customized by user (an offer template where the client has the possibility to fulfill his preferences), Offer customized by the Client (offer that contains the client preferences and it is sent to the Platform Agent), Customized offer – to be sent to a group of clients (based on data mining analysis, clients profiles were identified and customized offers were created), Product / Service Category (before an offer must to be created, first it is selected from several categories). In Figure 2 is shown the entities class diagram for the proposed marketing communication platform.

b) Entity Lifecycles artifact describes the behavior of each entity and several states that it can reach.

c) Business Processes represents a very useful artifact because it describes aspects like task sequences, triggering business

events, decision states, information exchange, communication between processes in different organizations, etc. [17]

Figure 2. Entities class diagram for the Marketing Communication Platform



1.2 Define system requirements task involves the actors identification, their rolls, uses cases design, activity diagrams for creating scenarios with a high complexity level. In Figure 3 there is shown a use case diagram that describe the process need for obtaining a customized offer for a group of clients. In the diagram the color yellow was used to mark the action made by the MRK Platform Agent, the blue for the actions made by the Client Agent and with red the actions made by the both agents types. The MPA needs to establish a connection with the CA. After that, MPA needs to select a product / service to promote. Based on selected product/ service several criteria that describe it are picked-up and sent to the AC. The client through an interface offered by the AC has the possibility to fulfill his preference regarding the product. After that he will send his preferences to the MPA. MPA collect information from all the AC and store it into a database. After the process is completed, MPA uses a data mining algorithm and creates client’s profile and customized offers. Based on profile type, each client is distributed in a cluster (a group of clients with similar preferences). To each cluster, a customized offer will be send and obviously, to each client via email. The offer impact over the client reaction will be big because the offer is very similar with client’s expectations.

In this task, an activity diagram is also depicted. In Figure 4 it is shown the process needed to create a customized offer. In this diagram type there are highlighted also the decision points. For example, MPA will not wait forever a client to fulfill its preferences.

It will have a certain period of time. If the client doesn't send his preferences about the product, the MPA will send a new message to the client, considering the client for the next round.

Figure 3. Use case diagram with details for obtaining process of a customized offer for a group of clients.

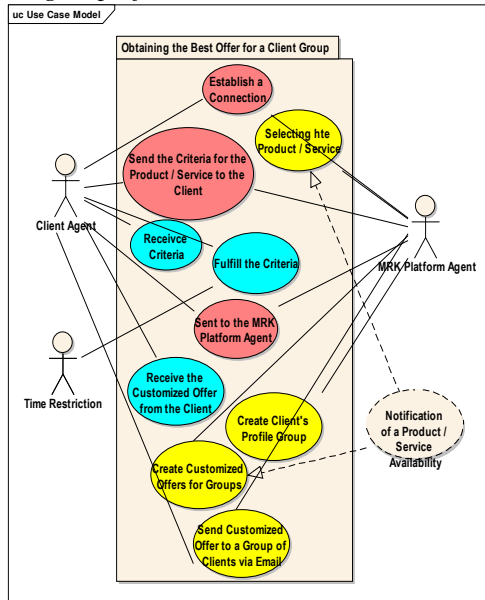
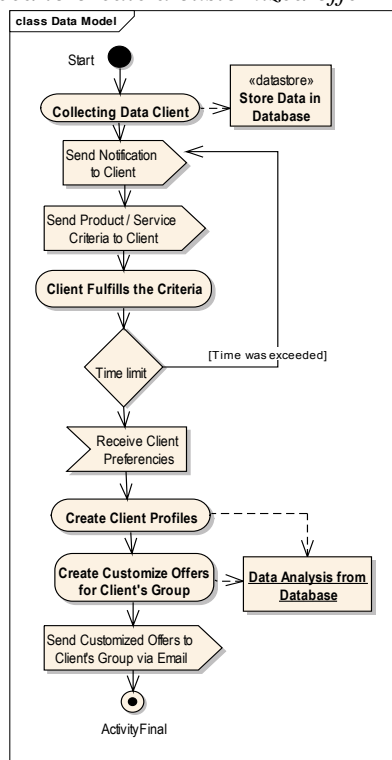


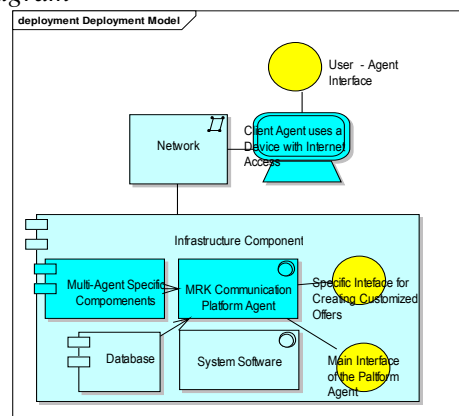
Figure 4. Activity diagram showing the steps need to create a customized offer



2) PIM phase

2.1 Define architecture – in general, most of the modern business - oriented software system are built on three layer, respectively technological layer, application layer and business layer. The technological layer will assure the needed infrastructure that will support all the application and business process. For the proposed marketing communication platform, the technological architecture is shown in Figure 5. It was modeled by using Archimate modeling language and comprises an infrastructure component that has a system software installed and also the marketing platform. A component is also installed, component that will be useful for the multi-agent system. In general, such component is a multi-agent plug-in or platform that offers several facilities for the agent like sending messages, protocols, communication and negotiation strategies, etc. The platform administrator must to deal with two interfaces (the main one and a specific one for obtaining clients profile and customized offers). The client has to use an interface for subscribe tie preferences about the desired product / service. After he finishes fulfilling the form, he sends it to the MPA. Based on all fulfilled forms from all the clients, MPA build personalized offers. The restrictions for the platform are working internet connection and the client presence in front of the computer during the preferences marking,

Figure 5. Deployment architecture diagram

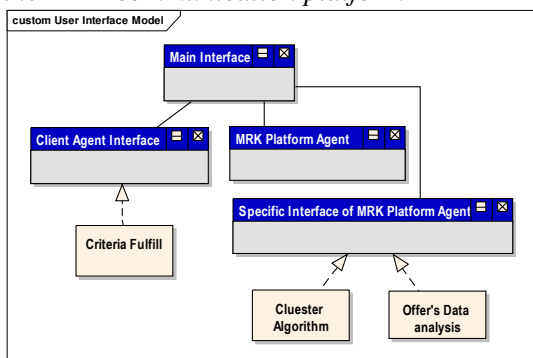


2.2. Perform detailed design is made after the definition architecture was done. It consists in describing the identified elements like packages, components, data, classes, interfaces, etc. In Figure 6 there is depicted

the relation between interfaces. All the classes are Clustering Application, Agent Client, Criteria, Agent Client Form, Agent Supplier Form, Existing Client Form, Main Frame, Criteria Reader, Agent Supplier, Offer Reader, Algorithm Runner, and Client Criteria Reader.

In the main interface there are two options: to open a specific interface managed by the MPA (1) and another one that will represent the user interface (2). Using the interface (1), there is the possibility to view the data clients that have already send their preferences, according to the clustering algorithm to set a parameter that represents the division number of the clients, to compute the personalized offers based on the client's profile, to send these offer to the clients via email. In the second interface (2) the client has the possibility to fulfill his preferences and to send them to the MPA. After that, he will receive an email with an offer that will be very close to his demands.

Figure 6. Interface's diagram offered by the MRK communication platform



3) PSM phase – Implement code and Implement Tests artifacts were not yet obtained, the paper being a work in progress.

## 5. Conclusion and future work

The paper proposes architecture platform based email marketing year on the modern communication technology, namely the multi-agent technology based. The main advantage of such a platform is lying in the fact that email marketing is a tool increasingly used, bringing huge profits to the companies. Also, investments in these platforms tend to grow from year to year according to statistics, due to their effectiveness. Using modern technologies

such as agent-based technology in these platforms increase the competitive advantage of companies that use them.

The proposed platform is characterized in that it achieves marketing activities using a technology based on multi-agent system and cluster data analysis. The main advantage of the proposed platform is that it uses a minimum of resources (due to the technology used), in order to achieve the main goal, namely to obtain customized offers that can be sent via email to the customer or potential client. Based on these offers, the clients' response tends to be a positive one. The platform is modeled using Model Driven Architecture, a quite new approach in software development. Several important aspects were depicted in several digrams..

As future work, it will be considered to combine several data mining algorithms in order to improve clients' profile and offers' details. Also, a device-type based approach for creating customized offers will be taken into consideration.

## 6. Acknowledgment

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## Consumption Expenditure in Romania – between Present Constraints and Past Habits

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### Abstract

*The magnitude and the obvious negative effects of the economic crisis have reshaped mentalities and announced the advent of a new type of consumer - more conscious, more rational, more inclined to save, and to postpone high value and indulgence purchases. While the influence of present economic factors on consumption is obvious and undeniable it seems rather natural to assume that present consumption depends not only on present economic factors but also on past factors. The paper was aimed therefore at testing whether previous income, previous wealth and previous consumption levels have a persistent influence thus affecting present consumption expenditure in the case of Romania. The results revealed that present consumption is influenced first and foremost by present income, and secondarily by present wealth; also significant were found both the influences of previous income and previous wealth on present consumption.*

**Keyword:** consumption, persistence, influence, Romania

**JEL Classification:** E21, N14, B22, C13

### 1. Introduction

The idea that present consumption is determined by both current and previous influence factors levels has been approached in the economic literature ever since Duesenberry formulated the relative income consumption function [1]. One of the most important conclusions in Duesenberry's work is that in the event the household income

decreases, the savings would be reduced to the end of preserving the living standard. It is assumed that households are reluctant to reduce consumption when confronted with falling income, their present consumption depending on the past peak level of income. This is the so-called ratchet effect which prevents the consumption level to drop significantly when the income decreases, and states the dependence of consumption on the highest level of income previously reached.

Franco Modigliani [2] demonstrated that households tend to maintain the level of consumption, in the case of income reduction the consumption patterns being subject to habit. To sum up it can be asserted that the highest level of past disposable income remains imprinted in consumers' memory thus determining their present consumption patterns.

Subsequent works such as that of Brown [3], based on previous research conducted by Duesenberry and Modigliani, demonstrated that in both cases of increase and decrease of income, consumer expenditure lagged behind inducing the idea that consumer demand was related to income or other cyclical variable. Brown explained that due to some inertia in their actions consumers fail to react promptly to income changes [3].

Nicholas Georgescu-Roegen also explored the notion, concluding that temporary experiences of an individual such as income or price changes leave noticeable traces when the previous conditions are restored [4].

Post Keynesian theories re-examined the relations between income and consumption and brought forward several other variables that may influence household consumption. One of those theories that of Hall, is



particularly relevant for our present endeavour. In the original paper from 1978, Hall added explicative variables to the consumption equation compared to its past value and concluded that no other information beside present consumption helps in predicting future consumption [5].

## **2. A General Framework for the Evolution of Consumption in Romania**

Following the dismissal of the communist party in Romania in 1989, the country started a long and burdensome road of transition to the market economy. The slow rhythm of the reforms initiated by the political forces in the 1990's many times doubled by the inconsistency of public policies had negative effects on the Romanian economy.

Only after 1999, recorded the Romanian economy promising results. In 2000 there was recorded a growth of 1.6 percent in GDP, after 3 years of consecutive decrease. Also the inflation rate, the budget deficit and the unemployment rate showed positive evolutions [6]. The priorities of the economic policies following the year 2000 aimed at achieving the objectives imposed by the EU accession. The sound economic evolution during the period between 2000 and 2006 led to the EU accession on January 1<sup>st</sup>, 2007.

Starting with the second half of 2007 the world economy has been reshaped by the global crisis. Among the emergent countries with high external deficits, Romania was obviously affected, the crisis effects, being visible starting with 2009. In 2007, Romania started the process of reaching the nominal convergence criteria for adopting the euro, and the positive economic developments in all European economies and Romania in the period between 2000 and 2006 created optimism about Romania's ability to enter ERM II in 2012 and maintain the long term exchange rate stability followed by meeting all criteria of nominal convergence. However, the endeavours made in this direction were hindered by the significantly different economic, regional and global geopolitical conditions, and reaching this goal will involve greater efforts [7].

As far as consumption is concerned, it's evolution in Romania is in concordance to the general economic situation of the country,

showing a constant ascendant tendency in the period between 1990 and 2008.

2009 was actually the first year in which the effects of the global economic crisis became apparent, with the main indicators registering significant decreases. In 2009, the households' actual individual final consumption dropped by 5.43% and the gross disposable income dropped by 2.39%. In 2010, both indicators recorded growth, slightly surpassing the levels recorded in 2008, while 2011 recorded further growth, showing a positive evolution.

## **3. The Methodology of Research**

### **The Objective and the Hypotheses of the Research**

We took into account the notion already present in the economic theory that sometimes past economic events have a lasting impact and therefore influence the current economic equilibrium. We presumed then that although the economic crisis determined a decrease in disposable income the consumption might not follow the exact same pattern. Our purpose was to determine how strong is the dependence between consumption and previous income level and wealth in the case of Romania. We examined, in other words, the possibility that consumption might not be strictly determined by current economic conditions, but also by previous ones.

In our empirical study we collected annual data for households' actual individual final consumption, households' disposable income and wealth approximated in this study by the monetary aggregate *M1*, for the period between 1990 and 2011. We formulated several hypotheses in order to determine whether consumption is influenced by both current and past economic factors, and subsequently developed single and multiple factor econometric models to test these hypotheses.

### **The data**

The modelled variable in our study was the households' actual individual final consumption which according to the methodology of the National Institute for Statistics, consists of households expenditure

on purchasing goods and services in order to directly meet the individual needs of resident households members, government expenditure for individual consumption (education, health, social security, welfare, culture, sport, recreation, collection of households refuse) and final consumption expenditure of non-profit institutions serving households for individual consumption (religious organizations, trade unions, political parties, unions, foundations, cultural and sport associations) [8]. The time series in millions of lei in year 1990 prices was stationarized by calculating the first difference.

The first independent variable used in the research was the gross disposable income ( $Y$ ), which is the balancing item of the income account and measures the part of the created value at the nation's disposal intended for

final consumption and gross saving. The time series in millions of lei in 1990 prices was stationarized by calculating the first difference.

In order to approximate wealth the monetary aggregate  $MI$  in millions of lei (year 1990 prices) was used. The sources for the data were the monthly and annual reports issued by the National Bank of Romania between 1998 and 2011. The time series in millions of lei in year 1990 prices was stationarized by calculating the first difference.

The processing of the data was conducted using E-views Enterprise Edition 7.0.

In order to summarize the set of observations a summary statistics was conducted and the results are presented in table 1.

Table 1. Descriptive Statistic for Variables for 22 Observations

Variable Name	Minimum	Maximum	Mean	Std. Deviation
$C$	42.42363	121.8255	72.4965	25.4899
$Y$	69.1313	124.2386	89.7775	18.5035
$MI$	3.8667	29.5841	13.0357	9.1018

The variables of interest are correlated with one another. In table 2 there is presented a pair-wise correlation matrix showing that consumption is positively correlated with

income (0.97) and with  $MI$  (0.68), while income is positively correlated with  $MI$  (0.75).

Table 2. Pair-wise Correlations for the Variables

	$C$	$Y$	$MI$
$C$	1.00	0.97	0.68
$Y$		1.00	0.75
$MI$			1.00

#### 4. The Results of the Empirical Research

The first hypothesis tested was the most simple, that is, consumption is a linear function of disposable income:

$$C_t = a_0 + a_1 Y_t + u,$$

and the equation fit the data well, as one may have easily assumed.

The results are:

$$\hat{C}_t = 1.0691 + 0.9971 Y_t,$$

with  $a_1$  significant at 1%. The strong correlation between variables is indicated by an adjusted R-squared of 0.7064.

The next two hypotheses were built by using the present levels of income and wealth represented by  $MI$  and their present and past levels, respectively.

The equation for the second hypothesis may be written as follows:

$$C_t = a_0 + a_1 Y_t + a_2 M1_t + u,$$

with the results:

$$\hat{C}_t = 1.2517 + 0.8595Y_t + 0.3161M1_t.$$

The adjusted R-squared is 0.7064 showing a fairly strong dependence between variables. The coefficient  $a_1$  is significant at 1%, while  $a_2$  is significant at 10%, confirming our hypothesis, that is consumption is influenced by both disposable income and wealth represented by the monetary aggregate  $M1$ .

The last hypothesis tested yields the equation:

$$C_t = a_0 + a_1Y_t + a_2M1_t + a_3Y_{t-1} + a_4M1_{t-1} + u_t$$

The results are the following:

$$\hat{C}_t = 1.9567 + 0.7621Y_t + 0.5235M1_t - 0.3227Y_{t-1} + 0.1684M1_{t-1},$$

with all coefficients significant,  $a_1$  at 1%,  $a_2$  at 5%,  $a_3$  and  $a_4$  at 10%, and  $a_0$  at 5%, thus confirming our hypothesis.

The obtained results show that consumption in Romania depends first and foremost on the present income, and secondarily on present wealth represented by the monetary aggregate  $M1$ . Also significant were found both the influences of previous income and previous wealth on present consumption.

## 5. Conclusions

One may easily notice the transformations occurred in consumer behaviour; they are obvious and undeniable natural consequences of an unfriendly economic environment, dominated by uncertainty. The international studies conducted in this field have revealed that the crisis has determined the emergence of a new type of consumer, more attentive, more rational, and less prone to impulse behaviour; a consumer looking for substance, for meaning and purpose and determined to change their buying ways. However it is rather improbable for consumers to abandon their consumption habits once confronted with budgetary restrictions. It is only natural to assume they would try to stick to their old consumption patterns and to maintain their consumption levels.

This paper attempted to formulate a series of hypotheses in order to test whether consumption in Romania is solely dependent

on current levels of the influence factors or also on their previous levels. We therefore developed single and multiple factor econometric models which were subsequently tested and a strong dependence between variables was revealed. The hypotheses were confirmed, with the results showing that for the examined period the present consumption depends mainly on current levels, but also on previous levels of income and wealth.

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## Social Entrepreneur and Skills Profile

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### Abstract

*The concept of Social Economy was defined through the specific forms or through the principles promoted. The Social Economy was understood as being the sum of non-profit organizations, cooperatives and other forms of private associated enterprises but it also was used as a synonym for social enterprises [1]. The Social Economy through cooperatives, mutual societies and associations (more and more foundations) highlights how special these organizations are within the Social Economy, and mostly the role of being beneficial for its members as for wide wide collectivities rather than having the role of generating profit for the investors[2].*

**Keywords:** opportunity, work, enterprise, occupation, industrialization.

**J.E.L. classification:** M12

### 1. Introduction

The Social Economy can function under different forms of organization: volunteer organizations (sometimes associated with a form of support religion which offers facilities) support groups for citizens (new forms of work and social integration related to the local resources) social public structures ( incubators) cooperative organizations (enterprises of the community which promote within the community specific interests of certain groups) new forms of non-profit organizations ( involved in offering public services which have commercial activities that can abstain financially the services offered) charities, associations of foundations (which own commercial entities whose role is to contribute to the income for public beneficiaries) [3].

The human civilizations have been structured since its early ages around the

concept of work. From the ancient middle Ages to the worker of the assembly line, work has been an essential part of everyday life. People have been working, but starting with the industrialization of economic processes, the decline of the number of working places has been a continuous process, and now in the whole world, almost a billion of people are unemployed. But people need to have work for their everyday life: house, school, health.

When enterprises do not offer enough working places for everybody or, when -for different reasons- we do not have access to a working place, there is the possibility to create ourselves an occupation, not only for us but we can give others the opportunity to work.

The Entrepreneurial spirit as a subject of discussion and analyzing has been introduced by the economists in the 18th century and it is still a point of interest for the today economists. In the 18th century in France, the economist Richard Cantillone pointed out the relation between taking risks in economies and the entrepreneurial spirit.

In England, the industrial Revolution was making its way and the entrepreneurs use the beneficiaries of the first opportunities to play an important role more and more visible in the transformation and the use of the resources being now registered the first influences on the macroeconomic indicators. Joseph Schumpeter, (who is considered by some economists a genius of the 20th century economics) said: the Entrepreneurial spirit is a type of behavior includes: initiative, organization and reorganization of the socio-economic mechanisms and the acceptance of risks and failure [4].

To have a full list of information about the profile and the competences of entrepreneurs there have been carried out a lot of studies that have lead to the agreed conclusion that all successful entrepreneurs had inner control and the capacity of

planning, they took risks, they used innovation and feed-back, they took decisions and they were independent. This list of qualities has been in a continuous process of adding new characteristics. The elements which outline the entrepreneurial profile are: innovative leaders, risk-takers, independent, creative, tenacious, original, optimistic, result oriented, flexible and materialistic.

The degree of adaptability and flexibility of the entrepreneur's personality is very important. An entrepreneur who has solid knowledge in the demine of human resources will behave with tact and diplomacy in the case of a crisis of personal (stuff). Moreover, an entrepreneur who is not informed about the legislation related to his activity even if he benefits in of specialized consultancy, may find himself I the situation of being unable to have a productive dialogue with the state or he may get with great difficulty a grant from financial institutions and banks as from European institutions.

The relationships between entrepreneur-provider and client based on trust, starts from equal positions where each partner has to observe the economic equilibrium: minimal effort/ maximum effect. The relationship entrepreneur-entrepreneur or employer-employee is regulated first of all by the Labor Code and by the Rights of Intellectual Property. But the human factor has a major role in the development of the business. While a good employee contributes to the wellbeing and the development of a business, a less complement one can have a negative influence in some business partnerships which were good until then.

## **2. Chacteristics of entrepreneurs**

Determination and perseverance: more than any other factor, the entrepreneur's total dedication to success can surpass any obstacle, strong determination and perseverance can make an entrepreneur face any difficult other people would consider insurmountable and it can even compensate the lack of experience of the employed staff.

The desire to win: Entrepreneurs examine a situation, decide how they can win and move on. As a result, risks considered to be big by the common people are big risks for entrepreneurs.

In search of feed-back, efficient entrepreneurs are often described as having the capacity of learning quickly and having the strong desire to know how well they are doing and how they can improve the results. The feed-back is important because the entrepreneur is willing to learn from mistakes and from previous experiences.

Finding a solution to persistent problems. Entrepreneurs are not intimidated by difficult situations. Self-confidence and optimism make for him/her, the impossible as something that needs more time to be solved. Entrepreneurs are extremely persistent but they are realistic about what they can or they can't do and when they need help to solve some problems which can't be avoided.

Initiative and responsibility: Entrepreneurs have always been considered independent people, they look for and take over initiates, and they put themselves in situations in which they are personally responsible for the success or the failure of the entire operation. They like to involve themselves in problems where the personal impact can be measured.

Opportunity oriented: One thing that clearly differentiate entrepreneurs is the focus put on opportunity rather than on resources, structure as strategy. When they decide to take action they do it methodically, trying to do everything to have more chances to win, but at the same time, they avoid taking unnecessary risks.

Tolerance to failure: Entrepreneurs use failure as an experience from which they can learn something. The most efficient entrepreneurs are those who expect difficulties and therefore they are not disappointed, discouraged or depressed by a defeat.

Self-confidence and optimism: Although entrepreneurs have often to face major obstacles, the confidence in personal abilities makes them surpass everything and makes the others keep their optimism.

Materialization of a vision: Entrepreneurs are now where they want to get. They have a vision or a concept about their idea. Not all entrepreneurs have pre-determined vision about their ideas; some of them develop their idea in time, understanding what it is and what it can become.

The high level of energy: The great amount of work done by entrepreneurs

supposes on their behalf the existence of a superior energy. Many entrepreneurs take care of the quantity of energy monitoring carefully what they eat or drink, they do a lot of exercises and they know when to draw back to relax.

Creativity and innovative spirit. For a long time creativity was regarded as something genetic, something that you are born with and you cannot acquire it. One of the most famous theories of the late 20th century says that creativity can be learned.

Independence: There are two things that make entrepreneurs to be very independent people who want to do things in their way. The frustration in front of the bureaucratic system and the desire to make 'a difference'. However, entrepreneurs do not take all decisions, they want the public authority to take the most important ones.

Team work: The desire of independence and autonomy do not stop the entrepreneur to want the team work. In fact, while the entrepreneur knows clearly where his firm is (or where he would like to be) the staff is busy with the daily activities of the firm.

Managerial abilities: A successful entrepreneur also needs this kind of knowledge to make his business to be efficient. The entrepreneur is a lead actor and a symbol for the market economy. Their roles and their contribution became greater.

In the modern sense of the market economy, an entrepreneur is an economic agent who adopts an active and innovative behavior, who deliberately accepts financial risks to develop new projects. Today there is a real recognition of this sector, mostly due to entrepreneurs' contribution to the evolution of the entrepreneurial sector and due to the influence they have on the macroeconomic indicators. We are talking today both about a competitive entrepreneurial spirit and a social one.

A social entrepreneur is a pragmatic visionary who makes sustainable social changes, systemic and on a large scale through a new invention, a more rigorous use of technologies and strategies already known, or through the combination of those mentioned above.

Entrepreneurs' characteristics

- Social entrepreneurs: - are ambitious: they confront major social problems, such as the raise of university taxes for the students

with a low income or the fight against poverty in the developing countries. These entrepreneurial leaders are to be found in all types of organizations innovative non-profit organizations, companies with a social target (aim) like banks working to develop the community and mixed organizations, a combination of non-profit organizations and lucrative ones.

-They have a precise mission: the main criteria of successive social entrepreneurs is to create social value, not wealth. Although the creation of wealth can be part of the process, it is not an aim in itself. The promotion of a social change is the real objective (goal).

-They have a strategic thinking like the ordinary entrepreneurs, the social entrepreneurs see and act according to some observations the others are missing: opportunities to make the system better, they create solutions and find new ways which generate social value. Like the best business entrepreneurs, the social entrepreneurs are tireless and focused on pursuing a social vision

-They are generators of resources because the social entrepreneurs operate in a social context rather than in the world of business, they have limited access to capital and to the traditional system of the market support. Consequently social entrepreneurs must be very skillful in gathering political, financial and human resources.

-They are result oriented: social entrepreneurs start from the idea to make results measurable. These results change the existing realities, open new roads towards the marginalized and the disadvantaged and starts the potency of the society to generate social changes.

A social entrepreneur is someone who recognizes a social problem and uses entrepreneurial principles to create, organize and monitor an entity which can make a social change. While the business entrepreneurs usually measure performance in terms of profit and added value, the social entrepreneurs measure the success through their impact on the society. Although the social entrepreneurs often work through non-profit organizations and groups of citizens, many of them work in the governmental and private sectors. Social entrepreneurs are people who offer innovative solutions to the

most urgent social problems of the society. They are ambitious and talented people, preoccupied by major social problems and offering new ideas for changes on a large scale.

Social entrepreneurs identify what does not function and solve the problem, changing the system, multiplying the solution and persuading the whole society to take a leap forward, rather than leaving the needs of the society in the hands of the authorities or in the hand of the private sector.

Social entrepreneurs are often passionate for their ideas, dedicating their life to the change in their sector at the same time they are visionary and realistic, preoccupied only by the practical implementation of their vision.

### 3. Conclusion

The social entrepreneur presents ideas which are easy to use, easy to understand, which are ethical and involve great support to maximize for him number of local people who are going to act, to take over and to implement the idea. In other words, each social entrepreneur is a mass recruiting officer of transformers for the local community - a model who demonstrates that passionate citizens can do almost anything.

In the last two decades, the sector of the civil society has learned what the private sector understood a long time ago: there is nothing stronger than a new idea in the hands of a skillful entrepreneur.

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## Organizational Consequences of Internal Marketing

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### Abstract

*The research efforts in the area of internal marketing have mainly been focused on identification of individual consequences (among which the most studied ones have been: employees satisfaction and organizational commitment) and less on studying the organizational consequences. In the present research we intend to analyse the effects of internal marketing upon the intensity of work conflicts, personnel fluctuation and organization's performances. The research has been conducted on a number of 83 medium sized and large companies, from various sectors of activity of the Romanian economy. The results of our research are consistent with previous studies results, proving the existence of a significant relationship between the adoptions of internal marketing practices on the one hand, and work conflicts and organization's performance, on the other hand. However, our research led to the rejection of the hypothesis according to which internal marketing has a direct and positive influence upon personnel fluctuation.*

**Key words:** internal marketing, work conflicts intensity, personnel fluctuation, organization's performance.

**J.E.L Classification.:** M31

### 1. Introduction

The importance of internal marketing has grown as a series of authors have highlighted, through conceptual or empirical studies, the

different beneficial effects that this concept has on the employee behaviour and on the organization's performance.

Generally speaking, the specific relationship between internal marketing and organization's performance has been mentioned in the literature as being an axiomatic one. The literature in this field has focused so far on the individual consequences of internal marketing, such as: employees' satisfaction, organizational commitment and organizational citizenship behaviour. Organizational consequences as the intensity of organizational conflicts and personnel fluctuation have been less studied empirically. Furthermore, there are little empirical evidence on the relationship between internal marketing and business performance. This paper aims to contribute to the understanding of organizational consequences of internal marketing, by analysing its effects upon the intensity of work conflicts, personnel fluctuation and organization's performance.

### 2. Literature review

#### 2.1. Internal marketing

Internal marketing is a common concept in the modern marketing nowadays. [1] Internal marketing involves applying the concept of traditional marketing and its associated marketing mix internally, in the relationship with the organization's staff.

Although many research efforts aimed at defining the concept of internal marketing, at present, theoreticians have not reached a consensus yet, in respect to the acceptable



definitions of internal marketing. There is, however, a wide variety of viewpoints through which it has been tried to explain as exactly as possible the content of this concept. For example, Taylor and Cosenza [2] define internal marketing as a strategy through which philosophy and marketing principles are applied in relation to employees, who have the task of serving the external clients. Internal marketing may also be defined as a process of initiating, maintaining and developing of the relationship between employees, managers and the organization, with the aim of creating superior value for its clients. [3]

Approaching the subject of internal marketing objectives, Stauss and Schulze [4] conclude that „the objective of internal marketing is to have motivated and customer-oriented staff”. The sub-objectives related to this main objective are: (1) collecting information about the employees (for example about the relevance of the interactions with the customer); (2) creating a framework for the acceptance of customer orientation; (3) training the employees to manage customer interaction situations and (4) creating an organizational environment that supports customer-oriented attitudes and behaviours.

## **2.2. Internal marketing and organizational conflicts**

According to Frățilă [5], organizational conflict is a form of manifestation of the conflict caused by factors having the origin in the relationships established between individuals during the work process. Organizational conflict is an objective reality, as an organization is made up of groups of working people with different personalities, mentalities, education, systems of values, and behaviours. Therefore maintaining a perfect harmony within the organization is rather an illusion.

The effects of internal marketing on organizational conflicts have been recognized from the earliest stages of evolution of this concept. Thus, Flipo [6] considers that internal marketing may be used to overcome inter-organizational conflicts and to promote an efficient internal communication. Internal marketing has the potential of reducing isolation between departments and intensity

of inter-functional conflicts ([7], [8]) through communication (for example, by disseminating information and through debate).

Piercy and Morgan [9] consider internal marketing as a course of action that reduces tension and inter-departmental or inter-functional conflicts, and helps to overcome resistance to change. Understanding, privacy, trust and commitment are, according to Ahmed and Rafiq [10] key-elements of internal marketing. Trust, for example, is important in relationships between colleagues, as it creates an environment in which conflicts and disagreements can be solved in a constructive manner [11].

## **2.3. Internal marketing and personnel fluctuation**

Personnel fluctuation is an abnormal phenomenon which refers to the employees' abandonment of the company, without the company's management approval, or by termination of employment as a result of breaking the contract of employment's rules and regulations.

The benefits of internal marketing come from four main sources, one of them being the reduction of personnel fluctuation. Thus, the reduction of the employee's turnover rate will lead in its turn to a drop in recruiting and training costs, as well as to a reduction in the stress level for existing employees.

Furthermore, Heskett et al. [12] emphasized that a low employee's turnover rate is related to the increase on clients' satisfaction.

Souchon and Lings [13] found that the adoption of internal marketing practices had a positive impact on employees' retention while Chang and Chang [14], in a study conducted in the hospitality sector in Taiwan, proved that the employee's turnover rate has a significant negative correlation with internal marketing practices.

## **2.4. Internal marketing and organization's performance**

Organization's performance has been conceptualized in three dimensions: financial performance, business performance and organizational effectiveness.

Some authors have concluded that internal

marketing helps to achieve business performance through internal customer satisfaction. Barnes, Fox and Morris [15] underlined that the influence of internal marketing on organization's performance is reflected by the fact that internal marketing role is to ensure that all employees have the necessary skills, abilities, tools, and motivation, in order to deliver the promised value by the company to its customers. A study conducted by Ahmed, Rafiq and Saad [1] on a sample of service providers companies from Malaysia, confirmed the existence of an indirect effect of internal marketing on organizational performance, while market orientation has been identified as being a mediating variable.

### 3. Research methodology

#### 3.1. Research hypothesis

Based on the literature review we have formulated five hypothesis of research:

H<sub>1</sub>: Internal marketing has a direct and positive influence on organizational performance.

H<sub>2</sub>: Internal marketing has a direct and positive influence on the intensity of work conflicts.

H<sub>3</sub>: Internal marketing has a direct and positive influence on personnel fluctuation.

H<sub>4</sub>: Intensity of work conflicts has a direct and negative influence on the organizational performance.

H<sub>5</sub>: Personnel fluctuation has a direct and negative influence on the organizational performance.

#### 3.2. Measure scales development

In order to measure the perceived level of internal marketing, we used the 15 items scale developed by Foreman and Money [16]. Each item was measured using a seven-point Likert scale (codified from 7 – Total agreement to 1 – Total disagreement).

For the construct „Intensity of work conflicts” we have used the 20 items scale of Bhat et al. [17]. In order to measure these items we have used a four-point evaluative scale (4 – Almost always, 3 – Often, 2 – Sometimes, 1 – Almost never).

Personnel fluctuation was measured through the employees' intention of leaving

the company. We have used Becker's [18] four items, which were measured by using a seven-point Likert scale (codified from 7 – Total agreement to 1 – Total disagreement).

The perceived level of organizational performance was measured using a scale taken from Santos et al. [19]. Respondents were asked to evaluate 12 performance elements of the firm, compared to the main competitors. For the 12 indicators we have used a seven-point evaluative scale (from -3 – much lower level than the competitors to +3 – much higher level than the competitors).

#### 3.3. Sampling and data collection

The sampling method used within the present research is convenience sampling (non-probabilistic sampling method). The questionnaire was administrated in person, throughout the interview operators. The declaring units are represented by people in the management of the companies.

The reference units are represented by the selected companies from the sample (medium-sized and large companies, i.e. with more than 50 employees). The sample size is of 83 companies.

In order to analyse the sample structure we have used the variables: company's sector of activity, turnover in 2014, and number of employees on 31.12.2014. Out of the sampling's total, 53% of the companies are in the sector of production and 47% in the sector of services. From the point of view of the turnover in 2014, 41% of the companies selected have a turnover between 10,000,001 and 50,000,000 Euro, 39.8% of them have a turnover between 2,000,000 and 10,000,000 Euro, and 18.1% have a turnover higher than 50,000,000 Euro. For 1.2% of the companies selected, the turnover is lower than 2,000,000 Euro. From the point of view of the number of employees on 31.12.2014, 59% of the companies have between 50 and 249 employees, 24.1% have a number of employees between 250 and 1,000, and 16.9% have more than 1,000 employees.

#### 3.4. Data analysis plan

For the data analysis we have used the SPSS, version 17. The main objective of the data analysis is given by the testing of the formulated research hypothesis. The process

of data analysis has undergone the following steps: analysis of the reliability of the scales used to measure the four constructs; determining the factor loading and testing the research hypothesis.

#### 4. Research results

The scales used to measure the perceived levels of the four constructs obtained a Cronbach - alpha coefficients of 0.930, 0.915, 0.942 and 0.898 (see Table 1). These scales have a level of the coefficient higher than 0.7, which indicates that the scales are reliable [20].

Table 1 Reliability of the measuring scales

Construct	alpha - Cronbach
Internal marketing	0.930
Intensity of work conflicts	0.915
Organization's performance	0.942
Personnel fluctuation	0.898

Source: own research

For the four constructs, the values of the KMO indicator are of 0.898, 0.853, 0.892 and 0.853 (>0.7), at a level of significance  $p=0.000$  of the Bartlett test. Hence, between the variables of each construct there are significant inter-correlations, which may be studied through the factorial analysis.

After the confirmatory factor analysis, conducted for the construct „Internal marketing”, the item referring to the remuneration of the employees' efforts who deliver excellent services, has been eliminated as its factor loading is lower than 0.5. This item is not strongly correlated with the extracted factor, the factor loading being of 0.486.

For the construct „Intensity of work conflicts”, we noticed that the item referring to the system of performance evaluation, which is seen by many as a deliberate effort of compensating promotion amongst employees (0.496), as well as the item referring to open and effective communication among the employees of an organization cannot be generalized (0.489), have a factor loading lower than 0.5. Consequently, the two items have been eliminated from the following statistic analysis.

After we conducted the confirmatory

factor analysis for the constructs „Personnel fluctuation” and „Organizational performance”, we have reached the conclusion that no factor loading has a value lower than 0.5. Thus, all items are kept in the analysis.

Table 2 Testing the research hypothesis

Hypothesis	$\beta$	p	Result
H <sub>1</sub>	0.492	0.000	Accepted
H <sub>2</sub>	-0.216	0.004	Accepted
H <sub>3</sub>	-0.425	0.073	Rejected
H <sub>4</sub>	-0.300	0.150	Rejected
H <sub>5</sub>	-0.189	0.005	Accepted

Source: own research

Hypothesis H<sub>1</sub> is accepted ( $p=0.000$ ), internal marketing has a direct and positive influence on organizational performance. Hypothesis H<sub>2</sub> is accepted ( $p=0.004$ ), noticing that internal marketing influences in a favourable manner the intensity of work conflicts ( $\beta= - 0.216$ ). Research hypothesis H<sub>3</sub> and H<sub>4</sub> are rejected, the level of significance being of 0.073 and 0.150 (>0.05). Internal marketing does not have a significant influence on personnel fluctuation, and the intensity of work conflicts does not have a significant influence on the organizational performance. Personnel fluctuation influences in a negative way organizational performance ( $p=0.005$ ,  $\beta= - 0.189$ ), thus accepting hypothesis H<sub>5</sub>.

Table 3 Coefficients of correlation and determination in the case of accepted hypothesis

Hypothesis	R	R <sup>2</sup>
H <sub>1</sub>	0.378	0.143
H <sub>2</sub>	0.310	0.096
H <sub>5</sub>	0.310	0.096

Source: own research

In the case of the three accepted research hypothesis we can observe the existence of low intensity relationships (R values of 0.378, 0.310 and 0,310). After analysing the values of the coefficient of determination, we can conclude that 14.3% of the organisation's performance variation is explained by internal marketing, 9.6% of the work conflicts variation is explained by internal marketing, and 9.6% of the organisation's

performance variation is explained by the personnel fluctuation.

## 5. Conclusions, implications, limits and future research directions

In the present research we have tested five research hypotheses, out of which being accepted only hypothesis H<sub>1</sub>, H<sub>2</sub> and H<sub>5</sub>. By testing hypothesis H<sub>1</sub>, we reached the conclusion that internal marketing influences directly and positively the organization's performance. In other words, the existence within the company of a higher level of internal marketing leads to a high level of organizational performance. Our results are consistent with the results of previous empirical studies. Numerous empirical researches have showed that internal marketing affects employees' behaviour and increases the quality of the services they deliver. The quality of these services is an important prerequisite for customers' satisfaction ([21], [22] and [23]) and loyalty ([24], [25], [26] and [27]). Ahmed et al. [1] confirmed the existence of an indirect effect of internal marketing on organizational performance, market orientation being identified as a mediation variable.

The results of this research show that a high level of internal marketing leads to a low level of work conflicts intensity (H<sub>2</sub>); the result being in accordance with the literature. Flipo [6] considers that internal marketing can be used to overcome inter-organizational conflicts and to promote efficient internal communication. Internal marketing can reduce the intensity of inter-functional conflicts through communication ([7], [8]). Piercy and Morgan [9] consider that internal marketing reduces inter-departmental and inter-functional tension and conflicts, and help overcome resistance to change.

Personnel fluctuation negatively influences the organizational performance. Thus, higher is the level of employees' turnover rate, the lower is the level of the organizational performance. The result of testing this hypothesis is consistent with the literature. Heskett et al. [12] underlined that a low employees' turnover rate is strictly connected to the increase of customers' satisfaction.

Given the results, we recommend companies to implement internal marketing

programmes, as the costs involved in their implementation are compensated by the increase in the level of organizational performance and by the reduction of the intensity of inter-departmental and inter-functional conflicts. We also recommend companies to try to reduce the employee's turnover rate, which will lead to a decrease in recruitment and training costs and to a higher level of performance.

The first limit of our research is given by the choice of the sampling method. We chose a non-probabilistic sampling method, in order to increase the response rate. Another limit is given by the small size of the sample (83 companies). Given the limited time of the managers, the formulation of their answers to the questionnaire took a larger period of time. The results of our research are valid at the sample level; their extrapolation to the level of the entire population involves precaution.

A future research direction is represented by the analysis of the mediating role of work conflicts intensity and personnel fluctuation in the relationship between internal marketing and organization's performance. Future research may involve a representative sample at national level, to allow a comparative analysis between different sectors of activity and different sub-samples, according to companies' dimension and experience.

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## Supply Chain Management – A Theoretical Approach

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### Abstract

*The purpose of this study is to highlight the supply chain strategic role for the increase of companies’ competitiveness.*

*Because logistics does have an enormous impact on SCM, global logistics information is now essential for supporting enterprise decision making, including demand planning and forecasting.*

*To make good decisions, managers need to understand optimized logistics costs. The performance of supply chain will help companies being more flexible and resilient in the face of the unexpected changes that frequent today’s volatile global economic environment.*

**Key words:** logistics, supply chain, supply chain management.

**JEL Classification:** A1, D2, D3, L1, M00, M4

### 1. Introduction

In the context of the knowledge-based economy, when we are witnessing a boom of information technology, we believe that enterprises should be aware that the supply chains have already met significant cost reductions, especially at the level of informations’ circulation. Thus the logistic departments take benefits on the advantages of informations and processing technologies [1]

Companies are investing in information management systems as an alternative to the expenses for other more conventional logistic resources. There are companies utilising sophisticated computer models that are able to offer them an important support in making tactic and operational decisions.

Internal informational services should be seen as a strategic asset for the companies activating in logistics. At this point,

enterprises should be aware of the urgent need for re-engineering of logistics process [2].

The logistics performance evaluation is a matter rather than explicitly treated in the economic literature. The evaluation criteria for the supply system’s performance could be found in studies concerning the general diagnostic, the evaluation of manufacturing system and distribution and, indirectly, in some articles on financial diagnostic [1]. According to Putz and, what is missing from the vision of different authors concerning the supply chain performance, is precisely the systemic approach allowing not only the identification of weaknesses and strenghts, but also the localisation of these points at the level of supply chain components.

### 2. Logistics and supply chain management. Conceptual and methodological delimitations

Logistics is a component of Supply Chain Management. It represents the process of planning, implementing and controlling the effective and efficient flow of materials, production, services and related information from the point of origin to the point of consumption for the purpose of conforming to customer requirements. From another perspective, logistics “includes a complex of activities having as goal the conception, the physical realization, the organization and optimization of all flows from the inside and/or outside of a system in order to assure the desired product, in the desired quantity and conditions, at the designated place, at the desired cost and quality expected by the customer” [1]

In a globalized market economy, the reduction of production costs and those of distribution, as well as the improvement of services’ quality are able to assure the company’s survival. The importance of logistics has increased in parallel with the

humanity's evolution. Although logistics concept was used since the Antiquity by the Greek philosophers, it appeared particularly in the military field. Its first definition was given by the General Henri Jomini in the year 1837 within his book entitled “A Summary of War's Art”. According to this definition, logistics involves the means and actions allowing the application of strategic plans; strategy is the one deciding the battle place while logistics transports the troops and the military resources.

In the economic sense, the terms of logistics has appeared in studies since the XIXth century where it talked about the infrastructures needed by the economic evolution. However, the modern concept is due to the knowledge-based economy when we are witnessing an explosion of technology and information systems. A definition given by The National Council of the Physical Distribution Management (NCPDM) in 1963, includes in logistics, the movement of raw materials from the supplier up to their entrance in the manufacturing process. The logistics activities are: “goods transportation, warehousing, handling, security packaging and inventory control, choose of factories and warehouses, the achieving of orders and commands, market forecasts and the service offered to customers” [1].

At the beginning, physical distribution and logistics were considered synonymous. But over the years, it has been observed that logistics is much more complex than distribution. The first theoretical approach of physical distribution belongs to Peter Drucker who considered it as another way of naming a business process. Looking deeper, Philip Kotler includes within physical distribution the planification, implementation and the control of physical material flows from their point of origin to their point of exploitation in order to satisfy customers' requirements and to achieve profit.

### **3. Logistics and supply chain management. Literature review**

European Logistics Asociation (ELA) gives its own definition of logistics activity: „The process of organizing, planning, controlling and achieving the flows of goods from the acquisition and development phases up to those of production and distribution to

the final customer, for satisfying market's demands with a minimum cost and a minimum capital” [3].

Mid-90s brings to the fore the concept of Supply Chain under the influence of software producers offering tools for a more coordinated and integrated management of the supply chain as a consequence of the development of TIC and Internet. The Supply Chain aims to increase the global performance and to place systematically the customer in the middle of the device, as a very important engine [3]

However a definition reflecting the modern integrated elements of logistics concept was proposed by the Council of Logistics Management (CLM). Under this definition, logistics is a component of SCM and it represents „the process of planning, implementing and controlling the flows of materials, goods, services and related information, from the point of origin to the point of consumption, in accordance with customers' requirements”.

In the Romanian economic literature, logistics is defined as the science finding optimal solutions for the localization and placement of activities, for the acquisition process, for transportation and goods distribution, for the organization of material and information flows in order to get the best return.

For a good, being the subject of an acceptable cost offer, it is necessary that the logistic infrastructures of the vendor, producer or supplier be connected and belong to a supply chain whose main goal concerns the consumer satisfaction. In this sense, logistics proves besides the operational function, a tactic/strategic function which aims to define the necessary means for achieving the company's objectives.

In the context of the global economy, at the level of logistics, we should take care of following aspects: the multiplication of the actors involved in the supply chain; the competition; the speed and the flexibility as fundamental criteria of the supply chain effectiveness etc. [3]

If the period 1970-1980 was influenced by the upsurge of the knowledge-based economy, the following years announced a radical change. This is the moment when companies use new management methods like JUST-IN-TIME in order to improve their

efficiency. These methods allow the limitation of stocks according to a precise organization of the acquisition process [4],[5]. In such a context, enterprises realize the importance of creating strategic relationships between customers and suppliers, this being a premise of SCM performance.

Later on, specialists in the field identified concepts like: Materials Management and DRP (Distribution Resource Planning), as a supplementary step in defining the function of transportation and that of physical distribution at the level of the supply chain. Global logistics includes all the internal or external activities of a company that are supposed to bring added value to the goods and services offered to the customers [6].

The integrated logistics aims to add the distribution function to that of acquisition, thus appearing the concept of Supply Chain Management [7].

From the literature in the field, we found out that SCM has his roots on Materials Management and on Physical Distribution [8]. The supply chain optimization started with an adequate management of costs.

In Tan's opinion the researchers have tried to fix the structure of SCM by starting with two main axes: a part designed to acquisition and another for the transportation and logistics. The integration of those two parties seemed difficult at the beginning, but they had a common purpose, that of satisfying the consumer.[7]

There are a lot of definitions concerning the supply chain. Our analysis helped us to understand that is difficult to find a universal definition for this concept.

Christopher considered that the supply chain could be seen as a network of companies that participate, upstream and downstream, in different processes and activities creating added value by the means of goods and services offered to the final customer. [9]

La Londe and Masters (1994) believe that the supply chain represents a group of companies that are transmitting materials from the ones to others. As a general rule, there are a set of independent actors involved in the production of a good and its transportation to the final user. We should take into consideration the raw material producers, the contractors, the wholesalers,

the distributors or the transporters, because they are all members of the supply chain. Therefore, we could appreciate that nowadays logistics is involved in almost all phases of goods' life cycle. The activity of logistics specialists concerns the process of making decisions regarding all the resources used in a complex universe full of constraints. These resources refers to: human, physical, geographical ones etc. The responsible with logistics problems tries to simplify as much as possible, but also to improve the acquisition, production and distribution processes in order to reduce costs but even the delivery times for the customer.

The supply chain is now considered as a main process with a strategic role for the company. The development of mondial changes and of electronic commerce are examples of innovations arising among logistics services [10].

Therefore, logistics plays a crucial role for the competitiveness and performance of different sectors. Logistics enables companies of all sizes to be better integrated into global networks generating economic added value.

A series of studies which analyse the overall performance of supply chain increase their interest in the existence and nature of the interactions realized between partners.

Fynes et al. focused on the relations of confidence, commitment, adaptability and communication characterizing the partners of a supply chain. They propose seven axes of performance: customers-partners-staff-sustainable development-shareholders-internal processes-information system. [11]

Other authors such as Chan and Tseng et al. consider that we should not reduce the performance's analysis to one area, but rather to structure our analysis criteria by taking into account the financial aspects in order to achieve the supply chain performance by reducing costs. [12], [13].

During our research we assumed that the supply chain performance is an objective that must be accomplished.

We agree with Jarillo who believes that the supply chain does respond to a strategic logic. The members of a supply chain, as partners, realize a profitable long-term arrangement that enables companies to get a competitive advantage. The enterprises, apparently independent, are actually



interconnected and they become dependent on the behavior of the other partners within the supply chain. [14]

#### 4. Conclusions

The creation of partnerships at the level of supply chain by reducing costs and by increasing its performance and effectiveness.

Presently, by increasing flexibility and agility, companies could influence the strong differentiation from their competitors. By the means of outsourcing, enterprises are able to focus their efforts on the key areas of competence but also to improve their competitive position.

The Supply Chain Management aims at adapting to a changing market in which companies' strategies are developing continuously and where there are new technologies that could not meet the current chain configuration.

We could appreciate that logistics comprises a set of activities having as purpose the conception, physical realization, organization and optimization of all technological flows from the inside and/or outside of a system so that a demand would be accomplished as soon as possible with the lowest costs

The economic crisis has opened new perspectives on the importance of supply chain efficient management. The negative consequences of this crisis have determined us to study deeper the supply chain strategic role in companies' competitiveness. In this respect, we proposed this conceptual model for the analysis of the supply chain hoping that our research's results would open the way for future studies in the operational field.

The supply chain's performance and also the company's one, depend on every function of the logistics regarded as an integrated system. Under the circumstances of an increased dynamism and complexity at the structural and functional levels of companies in the context of the knowledge-based economy, our research proposes to highlight some important issues.

The economic specialists and the managers should increase their preoccupations to find new economic levers in order to assure the supply chain

cost reduction and also the survival of companies in a competitive environment.

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# A Conceptual Model for the Analysis of Supply Chain Performance by Reducing Costs

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## Abstract

*Starting from a systemic approach of supply chain, our research intended to identify the synergies between the logistics functions and their role in reducing costs and achieving the competitive advantage.*

*By creating partnerships at the level of supply chain, we could foresee a premise of the global cost reducing, without ignoring the customers' satisfaction.*

*For this goal, we elaborated a conceptual model for the analysis of supply chain performance hoping that the results of our research would open the way for future studies in the operational field.*

**Key words:** logistics, supply chain, supply chain management, flow, integrated system, partnership, global logistics

**JEL Classification:** A1, D2, D3, L1, M00, M4

## 1. Introduction

The fundamental objective of supply chain is costs' minimization closely correlated with companies profits' maximization. Under the current conditions, we could appreciate that the main objective does characterize, in fact, the classical concept of logistics. On the other hand, modern/integrated logistics looks for minimizing the supply chain's costs at the same time with maximizing the company's turnover and customers' satisfaction.

The *supply chain systemic approach* supposes the identification of its activities, operations and processes in relation to the fundamental objectives mentioned above. The success of companies' strategies depends

on *supply chain management*. In this sense, all the operations of supply chain must be correlated to the strategic plan of the firm.

Managers coordinate the logistics functions in order to help the company in getting competitive advantages by reducing the supply chain cost or by differentiating services, or by both ways. For the fact that a task can be accomplished in several ways, with different costs and performances, the evaluation of the activities concerning the achieving of that task is really essential for the management. Hence we deduce the impact of logistics on the company's profitability.

Regarded as a system, logistics involves the exercise of a series of important and complex functions (material handling, transportation, warehousing, distribution etc.). The supply chain performance and that of the company depend on these functions.

This research gave us the opportunity to sustain that, in the present context, a global organization of logistics would be desired. In such a structure, the functions evoked would be controlled by a single department. We believe that a centralization of all logistics functions could offer important advantages, particularly that of an effective coordination between the logistics operations and the company's strategy.

## 2. Defining the objectives and research methodology

The systemic approach of the supply chain and the reduction possibilities of its cost, are the basis of our study. The finality of this theoretical research that has a character of fundamental research, consists in realizing a conceptual model

highlighting the relations between the logistics functions and their importance in creating the competitive advantage for the companies.

The four hypothesis to be considered during our research are:

H1: The systemic approach of the supply chain allows the identification of weaknesses at the level of logistics functions and their correction in order to increase the chain's efficiency and to reduce costs.

H2: The global organization of logistics and the centralization of its functions determine an effective coordination of logistics operations with the company's strategy. The succes of enterprises' strategies depends on the management of supply chain.

H3: Piloting the operational activity becomes a potential optimization vector of supply chain, especially for the fact that this activity could be controlled inside the company.

H4: Creating partnerships in the supply chain could be seen as a premise of costs reduction and of achieving the competitive advantage.

As a research method we used the inductive analysis based on causal explanation. We started by analysing the logistics functions and we continued our research approach by showing the way by which they influence the supply chain's effectiveness. Therefore we considered appropriate to analyse logistics as a system because of the complexity of its functions and of the interractions created among them.

### **3. Causal links between the logistics functions**

Performance appraisal is a matter of logistics rather than explicitly studied in the economic literature. What is missing from the vision of different authors concerning the supply chain performance, is precisely the systemic approach allowing not only the identification of

weaknesses and strenghts, but also the localisation of these points at the level of supply chain components [1]. In this respect, Putz and Bîzoi believes that a correct identification of the supply chain vulnerabilities is related to the existence and exploitation of the information available at the appropriate time and place, in the optimal quantity and structure. Therefore, a separate approach of logistics functions enabled us to identify the way by which every function influences the supply chain effectiveness and how it could reduce the chain's cost.

*Production:* Managing the production process is a very old topic that interested the theorists and practitioners (like Taylor, Fayol, Ford etc.) from ancient times. Starting from their work, several methods concerning the production management have been established like as: MRP (Material Requirement Planning), MRP II (Manufacturing Resource Planning), ERP (Enterprise Resources Planning). A very important issue for the management is represented by the production organization: the management is the one deciding whether the company produces on command or it prefers a stock production or a flow production. When it is difficult to predict the potential demand, the company will produce on customers' order. However, when the management is able to anticipate customers' needs, the enterprise will choose the stock production [2]. JUST-IN TIME production occurs when it is about a stable demand of goods. This type of production aims to reduce manufacturing costs and times and to improve goods' quality [3]. The management has to take the best decisions concerning the organization of the manufacturing process in order to reduce its costs, with a direct influence on storage and inventory costs and with an indirect influence on customers' satisfaction.

*Warehousing and stocks:* Each company sets its own accounting criteria

of costs' calculation and representation. The management is responsible for deciding whether the organization appeals to its own warehouse or to an external one. In every action, the management must pursue customer satisfaction and choose the most advantageous solution. On the one hand, great stocks will insatisfy the customers and determine important capital assets. On the other hand, they will give birth to unexpected costs in order to produce the attended goods. Such emergency cost could be a supplementary expenditure due to the lack of material resources in the own stock. Unexpected expenses always increase proportionally with the part of the demand that remained unsatisfied and with the period of the resources' lack.

Inventories are very important for an organization. However, they should not be oversized because they determine the economic agents to make significant capital assets. Therefore, the economic management of stocks could be regarded as a constraint or as a compromise between the exploitation and financial conditions [1].

*Distribution:* is a complex process that contributes to the promotion of the general economic progress. Distribution is the one regulating the manufacturing process, allowing a scheduling of production by the means of orders in advance and storage, annihilating the negative effects of seasonal or circumstantial fluctuations characterizing the demand [1]

*Transportation:* For the supply chain, transportation is a very large field whose optimization is very difficult. Transportation serves as an interface between the production process and that of goods' delivery on the market place [4]. Managerial decision regarding the choice of adequate transportation mode, has a direct impact on the company's operational effectiveness. The failure in identifying the most appropriate means of

transportation could cause higher costs for the company and could lead to customers' dissatisfaction.

By the means of the argumets given above, we have practically demonstrated the 1st hypothesis of our research. The supply chain management has a key role in identifying the weaknesses in the logistics functions and in correcting them in order to make the best decisions as to ensure lower costs for each function and to increase the chain's performance.

#### **4. Supply chain's systemic approach and its operational activities piloting process**

Supply chain's systemic approach supposes the identification of the activities, operations and specific processes in relation to the fundamental objectives mentioned above.

This research gave us the opportunity to argue that, in the current context, a global organization of logistics would be desired. In such a structure, the functions evoqued would be controlled by a single department. We believe that a centralization of all logistics functions could offer important advantages, particularly that of an effective coordination between logistics operations and company's strategy. In this respect, it is necessary to address systemically the supply chain by virtue of the fact that it uses a wide range of available assets and it is directly based on the relationships with production, marketing, sales and finances. A series of synergic relationships are established between all those functions.

The challenges that companies must face, involve the achievement of the competitive advantage by the efficient use of the integrated logistics. As noted previously, the supply chains have already known a set of significant cost reductions, especially at the level of information's circulation. Great companies dispose, in general, of several

information systems such as: accounting management system, financial accounting, stock system etc. They have also niche solutions in order to respond to the complex needs of management, planning and optimization. However, their maintenance is very expensive and companies are determined to ask themselves: How could it be possible for us to deal with flows of goods that become bigger and bigger every day? How could we respond more efficiently to the increased legal constraints? [5]. The solution would be a better internal supply chain organization accompanied by a most suitable structure. By using integrated applicative platforms, companies could assure the effectiveness of their supply chains. This is possible because they influence the optimization of their acquisition chain by reducing their stocks' level without having degraded the services offered to their customers and by keeping finance and management control modules allowing the information's circulation. By the means of a performant informatic system, the supply chain management could handle efficiently the tasks and the operations necessary for the logistic strategy achievement. At this point, companies should be aware of the urgent need of logistics process re-engineering [5]. The internal informatic service must be seen as a strategic asset for the companies activating in logistics field. Informatic activities outsourcing proves often as an error that arrives to cost significantly the company.

The centralization of the supply chain's functions brings a number of benefits:

- On the one hand, it permits to the management to have an important overview: the transversability of a supply chain unit means the knowledge of all chain's components (acquisition, production, forecasting, distribution, transportation etc.);
- On the other hand, functions'

centralization determines the use of advanced informatic systems, a large-scale dissemination of good practices in the field, the increase of competences' level and particularly cost rationalization.

Our research allows us to argue that logistics functions centralization and operational activity piloting do represent potential vectors of supply chain optimization, of its effectiveness increase and of costs reduction. All these operations are related to company's strategy that pursues customers' satisfaction.

All the arguments mentioned confirm the hypothesis 2 and 3 of our research.

## **5. Partnerships in the supply chain**

Uncertainties about the possible economic growth, have determined the managers to optimize their decisions concerning the re-evaluation of every sector's effectiveness and efficiency. Stocks' reduction due to the demands fluctuations and the significant increases characterising transportation costs led to some managerial decisions changes. A large number of companies decided to outsource some of their logistics services. This led to a closer collaboration between companies and logistics and transportation services suppliers which determined cost reduction and the increase of effectiveness. Other companies preferred an internal management of logistics operations in order to increase their control degree and to assure a better traceability for their products.

Whenever we talk about partnerships, we must make the difference between this concept and that of collaboration. In the economic literature, these two concepts are treated differently.

In Min et al. Opinion, there is collaboration when two or more organizations share the responsibility of planning, executing or evaluating a set of activities under the circumstances of the

existence of an information change [6].

A collaboration between a client and his suppliers is not reduced to a simple delivery of goods on the basis of firm orders, but it represents a strategic relationship covering the entire life cycle of goods. That type of collaboration involves the partners in every step of product's development up to its final delivery.

Benefits of forming partnerships include:

- Partners sharing of different instruments such as: transportation, warehousing, inventories, informatic systems, technology and even human resource;
- Redefinition of roles division between partners together with a maximum exploitation of their competences;
  - Risks and/or costs sharing;
  - Jointly manufacture of goods;
  - Sharing the impressions about the market, following the exemple of the distributor that knows very well the dynamic of sales.

For the fact that supply chain supposes the coexistence of several partners (producers, suppliers, providers etc.), we could appreciate that a series of different types of contracts are concluded by them, depending on the activity nature and on their commitments (acquisition contracts concluded with the suppliers; outsourcing contracts for special activities concluded with providers; subcontracting work contracts etc.) [7].

According to the concept of lean management, the supply chain main objective is that of reducing costs [8].

The global impact of the supply chain optimization will concern the following aspects: reduction of transportation costs; limitation of maintenance costs; decrease of storage and warehousing costs; reduction of acquisition intervals. All these bring significant advantages to companies, to consumers, to the economy and to the society as a whole.

All the arguments mentioned above helped us to confirm the 4th hypothesis of our research study.

## **6. A conceptual model for the analysis of the supply chain and its impact on the SCM**

The development of a conceptual model highlighting the supply chain strategic role based on the interactions created between its functions, does represent a complex and difficult demarche.

As a novel aspect issued from our research work, we have understood that supply chain proves an unique and integrated flow using a wide range of available assets. Moreover, supply chain is directly related to production, marketing, sales and finances. Starting with a systemic approach of supply chain, we identified the synergies created between its functions and also the role of every function in costs' reduction and in achieving the competitive advantage. Thus, we could consider that there are a series of causal relationships with mutual influences between all the supply chain's functions. Reducing cost at the level of every function, companies could reduce the supply chain global cost which will affect its performance. In order to increase supply chain performance and to reduce its cost, managers had to reposition logistics role in companies' competitiveness.

Therefore, companies resort to creating partnerships that enable all sized organizations to be better integrated in global networks producing added value. In this respect, supply chain management should manifest interest in logistics' global organization and in the centralization of its functions for an effective coordination between logistics operations and company's strategy. Otherwise, management should understand that the operational activity piloting process does represent a potential

vector of supply chain optimization. Last but not at least, creating partnerships at the level of supply chains, could become a premise of cost reduction and of achieving the competitive advantage without ignoring consumers' satisfaction.

In the center of our conceptual model lies the supply chain that realizes interconnections with all its functions. On the other hand, between these functions there are a series of bilateral relationships so that they stimulate and reinforce each other, leading to a synergy effect with direct influences on supply chain performance. We should not lose sight of interconnections between Supply Chain Management and supply chain. Management has a crucial role at this level because it interferes with the decisions taken in the improvement process of supply chain global performance. The goal that should be pursued by the management refers to a greater flows fluidity characterising the supply chain in relation to the reduction of logistics system's global cost.

Seen as a whole, this conceptual model for the analysis of the supply chain is based on the four hypothesis demonstrated during our paper.

## 7. Conclusions and future researches

This article aims to analyse the relationships between the supply chain and its functions in order to realize a conceptual model presented in its entirety. The key points of our vision presented during this study, are the following ones:

- The global objective of this paper regards the supply chain performance due to the reduction of its total cost in order to achieve the competitive advantage;
- The supply chain systemic approach, regarded in its integrality and not as a single sequence of different elements;
- The reduction of costs for every function with a direct impact on the

supply chain total cost;

- The reassessment of supply chain internal organization and the centralization of its functions in order to synchronize production with the real demand and with customers' expectations for their satisfaction;
- The creation of partnerships at the level of supply chain by reducing costs and by increasing its performance and effectiveness.

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## Services Quality in Catering Industry Case Study: Forest Restaurant - Sinaia

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### Abstract

*Forest Restaurant is located in Sinaia and is characterized by class and sophistication that strengthen the look of luxury. Currently on the catering market, services quality and customer satisfaction is an important factor for success. This paper aims to analyze, through a research, customer satisfaction and perceptions related to the quality of services offered by the Forest restaurant.*

**Key words:** quality, satisfaction, restaurant, customer.

**J.E.L. classification:** M1, L83, L11.

### 1. Introduction

Quality awareness must begin with clear identification of customer requirements, regulatory requirements (rules, laws, applicable standards, etc.), and must continue with all other internal company processes involved in the product / service. Quality of service is perceived differently by the customer and service provider. The customer appreciates quality in terms of its needs, which depends on social and economic factors [1]. Staff and cleanliness, kitchen, outside areas and primary services are the dimensions that have a greater influence on the overall accommodation image [2].

For a company to provide its customers only quality services is necessary that before providing these services to be completely and correctly known customer requirements, and after their delivery, to be better known

reactions of customers. The services can be identified on three quality levels [3]:

a) conform quality – considers the explicit requirements of the customer, his financial means and the stated supplied quality ;

b) the perceived quality- considers the explicit and implied customer requirements, his financial means but also the competitors' offer ;

c) the quality that satisfies- considers the explicit and implied customer requirements, the present and future needs, the financial means and competitors offer

d) Quality of products and services is the basis of sustaining competitive advantages for many companies [4]. At the same time, quality of services is a real global strategic force, but faces many difficulties in implementation [5].

The assessment of the quality of service requires comparing its characteristics with the requirements of a specific "standard".

Any non-compliance - real or potential - is likely to generate customer frustration, which will seek another provider. Loss of restaurant customers may, in the medium-long term, lead to its bankruptcy.

### 2. Presentation of the Forest restaurant – Sinaia

Forest restaurant is located in the resort Ioana Hotels from Sinaia and is part of the concept "boutique" characterized by the following features:

- **the architecture and design:** distinction, privacy, luxury are some of the features of a building and how it is being

designed, the hotel appealing to other solutions emphasising uniqueness, such as addressing a topic or decorating every room in a unique style;

- **the services:** customization, discretion, promptness. Internal policy of the hotel imposes the employees to know every guest by name, as a element of approach and personalization;

- **the restaurant:** class and sophistication are the key descriptive elements, being the strength of the concept, which enhances the look of luxury;

- **the dimensions:** this type of hotel is within a minimum range of rooms for achieving personalization and individualization.

Restaurant "Forest" at Ioana Hotels Sinaia is located in pine forest and offers traditional Romanian and international menus. The decor is worth mentioning, because the restaurant is very nice and impeccably arranged towards the concept of "Forest". Basically it is in the middle of forest and from place to place are trunks of trees (real trees that have leaves beyond the roof) and is decorated with bird houses, lanterns, stove, barrels and others of the same family [6].

Forest Restaurant offers fine cuisine (such as Black Tiger shrimp, Kobe beef tenderloin, bear paw, jaw bull or ostrich fillet), all in a great mountain atmosphere, supported by the trees that surround the restaurant, and the bunnies you'll find them everywhere.

In the restaurant menu is (perhaps unique in Romania) capon baked in wine sauce, a special kind of cock that get fat easily and has very tender meat. And the desserts as, parfait, homemade tiramisu, banana barbecue or hot chocolate cake will royal end a culinary feast.

Impeccable service, sophisticated and very refined menu for the connoisseurs of tastefully cooked. There are also exotic delights and the international menu is distinguished by truly special flavors and concept, creation of a passionate team. Forest restaurant organizes weekly themed evenings with rhythms of jazz, country and pop.

### 3. The SERVQUAL method

SERVQUAL method was investigated and explained by the three major specialists in service quality, namely A.

Parasuraman, VA Zeithmal and LL Berry. This method can analyze the level of customer satisfaction by analyzing the perceptions and expectations of service with reference to a range of different service features.

This method is widely used for services quality evaluation and was used in different contexts such as: professional services, health services, tourism, transport, library, telecommunication, trading etc.[7]

The method consists of analyzing the determinants of perceptions and expectations of customers. Most determinants are developed in the form of questions addressed to customers, in the form of questionnaires, interviews or focus group meetings. After analyzing the results, the service provider will find out what their customers want and if they are satisfied with the way in which they were served. The difference between perceptions (P) and expectations (E) is the main object of measuring customer service quality. SERVQUAL is built on a response scale designed to encompass both customer expectations and perceptions regarding the service. It allows evaluation of service quality but at the same time, it is also a tool for improvement and comparison with other organizations of the sector.

Factors analyzed for determining the quality of service are grouped into five broad categories, namely:

- **Tangible elements:** the emphasis on physical facilities, equipment, decorations, wall color, light, staff, publicity materials and their impact on consumers; (Set 1-5)

- **Reliability** refers to the provider's ability to maintain promised quality of the service, in the promised period, the ability to inspire trust and confidence of clients and competence, respect and honesty of employees; (Set 6-10)

- **Responsiveness:** is based on how company employees provide the service: response timeliness, consistency, clarity, kindness; also the correctness of answers to various questions and the staff desire to assist the clients can significantly influence their perception on quality of service; (Set 11-15)

- **Assurance (trust):** by this dimension is aimed the preparation and knowledge required for service, courtesy, respect, consideration and friendliness of the staff

who come into contact with customers; lack of dangers, risks, uncertainties; (Set 16 - 20)

- **Empathy:** in this context, empathy is the ability to predict customer preferences and deliver a personalized service. (Set 21-25)

To find customer perceptions about service quality, factors above are developed in 25 questions on perceptions of service and 25 questions about their expectations. Each question is quantified with grades from 1 (minimum) to 7 (maximum). After collecting all the answers, it begins the proper calculation and final scores are determined for each dimension of quality by conducting perceived differences between mean values of perceptions and expectations.

Interpretation of the results is done after calculations, ie if the value of the difference is positive, then the quality of the perceived service is better than the expected one. When the difference is zero, then the perceived quality of service is identical to the expected service, in other words satisfactory. When the difference is negative, perceived service quality is below the expected service.

#### 4. Research on assessing the services quality of the Forest restaurant in Sinaia

The sample of this marketing research consists of 20 people.

After gender, respondents participated in the research are 12 men and 8 women. At the same time it is noticed that most were within the age group 30-39 years, the next category is the 40-49 and 20-29 years.

Regarding their studies, accounting for 80% of responses, respondents said they are university graduates, while 20% of respondents have secondary education. There were no answers for primary and secondary education.

In terms of the degree of customer loyalty was found that only one of the respondents turned first Forest Restaurant services, with a 60% who were at least at the third purchase.

After calculation and determination of services quality indicators offered by Forest restaurant it can be seen in Table 1 hierarchy dimensions that influence the quality of these services.

*Tabel 1 Hierarchy dimensions*

Nr.	Dimension	The average of
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		the quality of service
1	Assurance (trust)	0,53
2	Empathy	0,52
3	Responsiveness	0,47
4	Tangibility	0,40
5	Reliability	0,28
	<b>The overall quality of service</b>	<b>0,44</b>

Overall scores given to each criterion in the questionnaire were above average in the perception being recorded higher values than in the attitude. Thus, taking into account the responses it can be said that Forest Restaurant services are over current customer expectations. This can lead to the idea of high degree of customer satisfaction, given that they are above the threshold of minimum requirements.

Table 1 reveals the score recorded for each criterion and, as stated above, there is no negative values, or zero, which reinforces the principle that the management and services policy of this restaurant tries to rank beyond current or potential customer expectations, focusing on their satisfaction.

#### 5. Conclusions

Through the strategies adopted, restaurants managers will provide a certain level and a certain composition of quality. However the most important aspect is the customer's expectations and the impression he did before about how and at what level will be served. All these elements enhances the subtlety and complexity of quality services.

Forest Sinaia is a luxury restaurant, which addresses more tourists with disposable income who want to dine and socialize in a pleasant environment, airy and well integrated in nature.

Following the applied method research, it was showed that the Forest restaurant has a greater impact among people aged 30-49 years, especially males. Interviewees appreciate the quality of services offered in the restaurant and the ambience found here. A strong point of the restaurant, from the customer's point of view is the position and the quality of the products. It was noted that there is a loyal clientele.

The restaurant as the hotel enjoys notoriety and accessibility thanks to online booking and pages on social media with informations and constant updates, which keep and motivate clients to participate in as many events as possible organized in the restaurant.

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## Direct Research on Marketing concerning the Accessibility Degree of Seventeen Makeup Cosmetic Products marketed by Company X, among Customers

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### Abstract

*The purpose of this research was to identify the accessibility of cosmetic products marketed by that company X among customers.*

*The objectives of this research focused on analyzing the reputation of MAKEUP cosmetics range among customers, identifying the most accessed in the cosmetics product lines marketed by the company, identifying the accessibility of the product in terms of pricing, the identification of attractiveness behind choosing these cosmetics from a vast range of cosmetics marketed by competitors.*

**Key words:** research, accessibility, analysis, products, customers.

**J.E.L. Classification:** M31

### 1. Introduction

Given the fact that in recent years the company's products X are becoming more and more interesting for ladies, the purpose of this research was to identify the accessibility of cosmetic products marketed by this company among customers. It also sought to identify the most attractive cosmetic products from the product lines that range makeup which the ladies access.

Opinions of respondents on the complexity of cosmetic lines, product

quality, price to quality ratio, sensory experiences from the use and application of cosmetics, offers the possibility to draw up the image that the MAKEUP range has among customers. During the period 1<sup>st</sup> to 10<sup>th</sup> of March 2014, a statistical survey on three malls in Constanta was conducted. These three locations were chosen because the number of customers visiting stores where the company distributes its cosmetic products is significant, especially on weekends.

### 2. Research objectives

Research objectives targeted:

-analyzing the reputation of cosmetic products from the MAKEUP range among customers;

- identifying the most accessed cosmetic products in the cosmetic product lines sold by the company;

- identifying accessibility of products in terms of the price charged;

- identifying elements of attractiveness elements which were behind those cosmetic products from a wide range of cosmetics marketed by competitors;

- identifying the customers' opinion about the quality of cosmetic products from the Makeup range marketed by the company.

### 3. Sample setting

In the present research, the sampling

method chosen was the non-random one. It was started from the premise that:

- the number of customers who accessed cosmetic products sold in specialized stores in the period 1<sup>st</sup> to 10<sup>th</sup> March was of 1.160 ;
- among these, only 46% of them bought cosmetics SEVENTEEN, belonging to company X ;

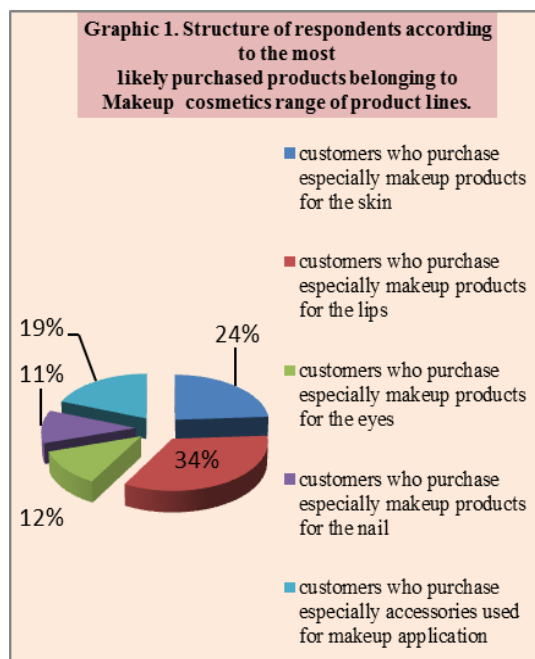
It results that the number of customers who bought SEVENTEEN products was:  
1.160 x 46 % = 533 customers

Of these, only 72.5% have purchased in the last months more than five cosmetic products from Makeup range belonging to different lines;

70,5% x 533 = 376 customers who bought more than five cosmetic products from the SEVENTEEN range, belonging to different lines, in the last months.

Customers were grouped according to the share of each customer segment, in the total of customers who purchased SEVENTEEN makeup (Figure 1).

Figure no.1. Structure of respondents according to the most likely purchased products belonging to Makeup cosmetics range of product lines



Source: Data processing based on sampling method taken from Cătoi, I. et. al, 2002

In order to obtain the sample I have extracted a percentage equal to 75% of each

group of customers which resulted in a sample of 282 customers that belong to the five groups.

Table no.1. Criteria for completing the final sample

Segment of clients	Percentage of total customers segment	Number of customers	Sample 75 %
Customers who purchase mainly skin makeup products	24%	90	68
Customers who purchase mainly makeup products for lips	34%	128	96
Customers who purchase mainly makeup products for the eyes	12 %	45	34
Customers who purchase mainly products for the nails	11%	41	31
Customers who purchase accessories mainly used for applying makeup	19%	72	53
<b>TOTAL</b>	<b>100%</b>	<b>376</b>	<b>282</b>

Source: Data processing based on sampling method taken from Cătoi, I. et. al, 2002

The survey sample consisted of 282 people, customers, aged between 18 and 65, who have purchased more than five SEVENTEEN products belonging to different lines.

#### 4. Research method and the instrument chosen

The method used was the statistical survey and the instrument chosen was represented by the written, semi-structured questionnaire, filled in by the respondent [1].

#### 5. Analysis and interpretation of results

Seventeen makeup products are quality products. Differential semantic was used to obtain a result by calculating the average assessment, to each answer corresponding to a number of the 1 to 5 scale, from very unfavourable to very favourable relative to the sample number.

$$(40 \times 1 + 12 \times 2 + 31 \times 3 + 72 \times 4 + 125 \times 5) : 282 = 3,79$$

The value obtained ranged between a less favourable and favourable with a greater tendency towards a second assessment. Most customers interviewed stated that they have often bought Seventeen makeup and they appreciate the quality of these products.

Prices charged reflect the quality of Seventeen products. Differential semantic was used to produce a result by calculating the average assessment, to each answer corresponding a number of the 1 to 5 scale, from very unfavourable to very favourable relative to the sample number  $(25 \times 1 + 50 \times 2 + 44 \times 3 + 85 \times 4 + 78 \times 5) : 282 = 3,50$

The value obtained ranged between a less favourable and favourable. Most customers interviewed stated that Seventeen makeup cosmetics are available in terms of price.

Seventeen makeup products have an original design that can not be easily confused. Differential semantic was used to produce a result by calculating the average assessment, to each answer corresponding a number of the 1 to 5 scale, from very unfavourable to very favourable relative to the sample number.

$(9 \times 1 + 41 \times 2 + 38 \times 3 + 106 \times 4 + 88 \times 5) : 282 = 3,79$

The value obtained ranged between a less favorable appreciation and a favourable one with a greater tendency towards a second assessment. Most customers interviewed stated that Seventeen cosmetic products are easily identifiable due to their original design.

Following the analysis of customers' responses, the main characteristics sought in case they wish to purchase makeup products for the skin are: providing natural coverage, as indicated by 42% of respondents, followed by offering brightness (30% of respondents), providing solar protection (indicated by 18.50% of respondents) and skin hydration capacity (indicated by 9.50%).

Almost half of the respondents said that they are choosing WONDERLIGHT SERUM MAKE UP SPF 20 foundation. It is a liquid foundation that provides natural coverage and brightness combined with all the qualities of skin care serum.

The basic ingredients of this product are: china flower – providing brightness and alabaster aspect, a combination of peptide Matrixyl 3000 ADIBOFILL'IN - wrinkle protection, Aquaxyl that retains moisture and

hydrates the skin. Also, this foundation does not contain oils, it is dermatologically tested, provides SPF 20 protection and contains no parabens.

Analysis of significant attributes that clients want to find in lip products. We have applied the method of rank ordering [1] to calculate the weighted average for each factor. For each rank, a score was given, as follows: rank I - 3 points, rank II - 2 points, ranking rank III - 1 point.

□ For color persistence  
 $(149 \times 3 + 75 \times 2 + 76 \times 1) : 282 = 2,38$

□ For transfer resistance:  
 $(52 \times 3 + 139 \times 2 + 83 \times 1) : 282 = 1,83$

□ For softness sensation:  
 $(81 \times 3 + 68 \times 2 + 123 \times 1) : 282 = 1,20$

The attribute which clients give the greatest importance when speaking of Seventeen makeup products for lips is the persistence of color, followed by transfer resistance (it does not remain on the glass, napkin, etc.) and then the feeling of softness.

Customer perception towards the makeup products of company X, in terms of diversity of supply in terms of color palette and in terms of price.

In order to identify what is the perception of the company's X products to customers, in terms of diversity of supply, in terms of colour palette and in terms of price, a question was used for whose interpretation Likert scale [1] was applied. Thus, for positive statements, each gradation was given a numerical value as follows: + 2 + 1, to indifference corresponds value 0, and negative statements are attached to one of the following values: -1 , -2

□ For statement no. 1:  
 $[2 \times 28 + 1 \times 164 + 0 \times 56 + (-1) \times 26 + (-2) \times 8] : 282 = 0,63$

□ For statement no. 2:  
 $[2 \times 37 + 1 \times 171 + 0 \times 49 + (-1) \times 12 + (-2) \times 13] : 282 = 0,61$

□ For statement no. 3:  
 $[2 \times 13 + 1 \times 149 + 0 \times 69 + (-1) \times 37 + (-2) \times 14] : 282 = 0,39$

For average level =  $( 0,63 + 0,61 + 0,39 ) : 3 = 0,54$

According to available data, it appears that the company's offer is diversified, cosmetic products are found in a wide range of colours and cosmetics prices are not high, being available to most clients. Also, the price of the products reflects their quality.

From centralizing data, it is revealed that 38% of customers purchase cosmetics makeup every two months, 23% - once every three months, 19% - once a month, 12% - twice a month 5% - once every four months, and 3% - twice per year.

To identify customers' attitude towards cosmetics makeup of SKIN line, the semantic differential scale was used. Each scale position was assigned a numerical value from 1 to 5.

The score obtained for customers' attitude towards the price charged for skin makeup cosmetic products:

$$(5 \times 109 + 4 \times 28 + 3 \times 52 + 2 \times 50 + 1 \times 43) : 282 = 3,39$$

In terms of price, the customers' attitudes toward cosmetic makeup products for the skin is divided between less favourable and conducive with a greater tendency towards the first assessment, which results from their score.

The score obtained for clients' attitude to quality makeup cosmetics for skin:

$$(5 \times 123 + 4 \times 11 + 3 \times 40 + 2 \times 52 + 1 \times 56) : 282 = 3,32$$

In terms of price, the customers' attitudes toward cosmetic makeup products for the skin is divided between less favourable and conducive with a greater tendency towards the first assessment, which results from their score.

The score obtained for customers' attitude to quality makeup cosmetics for the skin:

$$(5 \times 158 + 4 \times 11 + 3 \times 43 + 2 \times 52 + 1 \times 18) : 282 = 3,84$$

In terms of price, the customers' attitudes toward cosmetic makeup products for the skin is divided between less favourable and conducive with a greater tendency towards the second assessment, which results from their score

From centralizing data, it is revealed that 32% of customers purchase cosmetic makeup for lips every two months, 24% - once every three months, 19% - once a month, 14% - twice a month 6% - twice a year and 5% - once every four months.

To identify clients' attitude towards cosmetics makeup of LIPS line, the semantic differential scale was used. Each scale position was assigned a numerical value from 1 to 5.

The score obtained for customers' attitude towards the price charged for lips makeup

cosmetic products:

$$(5 \times 127 + 4 \times 86 + 3 \times 50 + 2 \times 17 + 1 \times 2) : 282 = 4,13$$

In terms of price, the clients' attitude to cosmetic products for lips makeup is favorable, which resulted from their score (4,13).

The score obtained for clients' attitude to quality makeup cosmetics for the lips:

$$(5 \times 122 + 4 \times 91 + 3 \times 59 + 2 \times 7 + 1 \times 3) : 282 = 4,14$$

In terms of quality, the customers' attitudes toward cosmetic makeup products for the lips is a favorable one, which resulted from their score.

The score obtained for clients attitude to diversity cosmetics makeup for the lips:

$$(5 \times 138 + 4 \times 89 + 3 \times 42 + 2 \times 12 + 1 \times 1) : 282 = 4,24$$

the customers' attitudes toward cosmetic makeup products for the lips is a favorable one, which resulted from their score (4.24).

From centralizing data, it is revealed that 36% of customers purchase cosmetics eye makeup every two months, 20% - once every three months, 19% - once a month, 14% - twice a month 9% - once every four months, and 6% - twice a year.

To identify customers' attitude towards cosmetics makeup of EYES line, the semantic differential [2] scale was used. Each scale position was assigned a numerical value from 1 to 5.

The score obtained for clients' attitude to quality makeup cosmetics for eyes:

$$(5 \times 107 + 4 \times 67 + 3 \times 29 + 2 \times 78 + 1 \times 1) : 282 = 3,71$$

In terms of price, the customers' attitude towards cosmetic makeup products for the eyes is slightly favorable, which resulted from their score (3,71).

The score obtained for customers' attitude to quality makeup cosmetics for the eyes:

$$(5 \times 123 + 4 \times 89 + 3 \times 49 + 2 \times 20 + 1 \times 1) : 282 = 4,10$$

In terms of quality, the customers' attitude towards cosmetic makeup products for the eyes is favorable, which resulted from their score.

The score obtained for customers' attitude towards the price charged for eyes makeup cosmetic products:

$$(5 \times 132 + 4 \times 72 + 3 \times 39 + 2 \times 35 + 1 \times 4) : 282 = 4,03$$

In terms of quality, the customers'



attitudes toward cosmetic makeup products for the eyes is a favorable one, which resulted from their score (4.03).

35% of customers surveyed fall into the age category 26-35 years, 28% fall in the age category 36-45 years, 14% fall in the age category 18-26 years, 12% fall in age category 46-55 years and 11% of customers surveyed over 55 years.

28% of customers who filled in the questionnaire have revenues between 1201 lei and 1,500 lei, 27% have revenues between 1001 lei and 1200 lei, 24% have revenues between 1501 lei and 2000 lei, 9% of respondents have revenues over 2000 lei, 8% have revenues between 701 lei and 1,000 lei, while 4% of respondents have revenues below 700 lei.

51% of customers purchasing SEVENTEEN makeup products have a school degree, 28% have higher education, 18% have post-secondary and graduate studies 3%.

94% of customers purchasing SEVENTEEN makeup products expressed their willingness to purchase the company's products in the future, 4% said that they will not buy and 2% said they cannot give a clear answer.

## **6. Conclusions**

To successfully face the fierce competition that occurs on the internal and international cosmetic market, the company X, must adopt marketing strategies to assure optimal visibility and market leading to expansion of the market.

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## Efficient Management in the Educational Process

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### Abstract

*Exercising power points to obtaining some high performance in the context of the general strategy chosen for meeting the objectives and accomplishing the mission. The Educational Management is the art of the educational manager of using ideas like the educational objectives, the analytical syllabi, the didactic strategies, together with the relationships determined by the organizational structure, the ties between elements and actions, assignments, the balance between authority and freedom, between centralization and de-centralization, together with the people, through formation, motivation, authority delegation, stimulation, evaluation and using the resources through definition, diversification, preoccupation, adaptation, integration.*

**Key words:** management, education, formation, teacher, performance

**JEL Classification:** M1; M10; M19

### 1. Introduction

In a narrow sense, the manager of an organization is the person who acts on the individuals of the group to determine them to act in a certain direction.

The leadership and the management can be: formal, when a person or a group lead in the virtue of the hierarchical position owned as well as informal, when the group or the person in charge are chosen by the consensus of the majority of the organizational group.

In the educational domain, the manager has achieved lately a growing significance, both in Romania and the European society. The approach of this topic has been analyzed by many specialists in this area, establishing clear directions for action that must be followed by the management of the educational units.

*“Education as a primary domain of the social life, as long term business, on which depends the formation of the most important factor of the nation, the person, prepared through study, working force and specialists, can’t and shouldn’t allow itself to have failures” [1].*

The leadership, the competency and the efficiency of the national education, at the level of the system, as well as that of educational unit, needs its scientific foundation. At the basis of this foundation is the science of educational leadership and educational management.

*“The position of leader (manager) in education is a profession and as any profession, it must be learnt. The manager gathers the conditions of a profession because it needs a preparation, it follows getting some results, through shared efforts, it demands continual participation” [2]*

### 2. Aspects concerning accomplishing an efficient educational management

The term educational management has emerged from the social-humanistic sciences related to pedagogy, but individualized by their object of study: economy, sociology, psychology, politology. Educational management knows, integrates and adapts data received from the sciences related to

social-humanistic sciences: Economy (obtaining the efficient organization and use of educational resources in relation to the objectives), Sociology (through accomplishing the management of organizations, groups, relations, social phenomena generated by the educational context), Politology (for decision making, organization and leadership of groups according to some objectives), Psycho-sociology (the dimensions of the manager's personality on role exercising). Also it can be considered the activity of other persons who determine and direct the activity of the others through following the activities accomplishment in the best conditions, through the awareness and assumption of responsibilities over accomplishments and failures. The educational management is the art of the *educational manager* of using ideas like the educational objectives, the analytical syllabi, the didactic strategies, together with the relationships determined by the organizational structure, the ties between elements and actions, assignments, the balance between authority and freedom, between centralization and de-centralization, together with the people (through formation, motivation, authority delegation, stimulation, evaluation), resources (through definition, diversification, preoccupation, adaptation, integration). The characteristics of the educational manager are manifested through the complex character of actions which accomplish the optimal activity of the educational system (planning, decision, coordination, control, educational strategies and methodologies), and the interdisciplinary dimension involved in the educational problematic together with the participative character generated by the active involvement of all the actors (students, teachers, parents etc.).

Also, the characteristics of educational managements are the double professionalization, these being both for specialists and leaders; they must have competencies, knowledge in both areas, creative and intuitive character about the activity, physical and psychological endurance for diverse types of requests. They have to be role models personally, professionally and socially, they have to have prestige, authority and responsibility in front of the group [3].

Fig. 1. The defining characteristics of the manager profession



Source: Țoca, I. – *Educational management*, Editura Didactică și Pedagogică, București 2007

Effective and efficient management implies meeting the established objectives at the level of the organization in established temporal terms and at the projected standards. These qualities of the management can be obtained in the following conditions: the optimal use of human, material and temporal resources, the adequate and differentiated motivation of the organizational staff, the creation of a functioning informational system, the manager has to appoint responsibilities, the use of modern leadership techniques, the accomplishment in optimal periods of some pertinent evaluation activities.

The educational management manifests itself at the following levels: the macro-management of the educational system and of the education system, on countries and on levels: European, national, local; the intermediary management of the school organizations, which consists of the coordination of the educational structures by the lead managers from education, from minister to school headmaster; the micro-management of the classes that analyze the lesson organization manners and of the classes by the operational managers from education (the teachers). The educational management is dynamic both in what concerns the theoretical basis as well as the integrative because it synthesizes data from

connected domains. This is the prospective character anticipating based on the tendencies of system evolution; it is indicative-instrumental because it shows how the objectives have to be met, how the principles have to be respected, how the methodologies have to be applied and it is multifunctional through the description, the use and the application of multiple roles, attributions and operations.

*The postulates of the modern management* formulated by the famous researcher and theoretician Peter Drucker from the perspective of the education and learning domain are:

- Management is general, asserting itself in every economic and social domain;
- The development of the innovative spirit is an essential trait of the modern management;
- Management is oriented to the continual growth of the productivity of the intellectual and physical mind;
- Management engrafts itself among the cultural, social and political traditions of every country, on the conditions of the development of the tradition.
- Management constitutes the primary factor for the growth of the efficiency of the ongoing activity.

The management from an education unit exercises itself similar as within a functional organization, that is: top management (the management from the top-level of the leadership), middle management (the management on domains – the level of commissions/ departments/ compartments), and first level management (the classroom management – the level of student committees). The educational managers are persons who using a series of laws, principles, methods, etc. depending on the personal competencies, they lead to a certain hierarchical level of the school organization to the accomplishment of the followed purposes. From this perspective, the specialized literature [4] presents the following order of types of educational managers:

- Pre-school teacher, primary teacher, teacher: manages the didactic activity at the level of the classroom-collective or group;

- Form-teacher: manages the educational activity at the level of the classroom or group of students;
- Speech therapist teacher: manages the language formation process and the psycho-pedagogical assistance specific to students and parents at the territorial and county level through the speech therapy centers and at the inter-school level through speech therapy office;
- Counseling teacher: manages the psycho-pedagogical activity of the students, teachers and parents at the territorial-county level through centers of psycho-pedagogical assistance and at the inter-school level through psycho-pedagogical assistance offices;
- Methodist teacher: manages the methodic activity at the territorial and county level through the Teaching-Staff Resource Centers and at inter-school level through the methodic commissions and departments;
- Headmaster teacher: manages the activity of an education unit globally;
- School inspector teacher: manages the different inspections: in school, general, territorial;
- High education teacher: tutor, assistant, lector, docent, professor;
- High education teacher manager: rector, pro-rector, dean, pro-dean, head of department, director, vice director, scientific secretary.

The educational management is the science and the art of preparing human resources, of forming personalities according to some purposes required by the society and accepted by the individual. It can be analyzed regarding meanings like action, operational, practical, tactical, procedural, theoretical, global, general, strategic, and scientific. The educational management requires an interdisciplinary approach that analyzes the events that interfere in the decision for the organization of a pedagogical determined activity and in the account of the educational syllabi. The managerial leadership gets involved and puts emphasis on ideas, on systematic approach, on change, on strategy, on innovation [5]. The educational management creates a methodology of

global, optimal, strategic analysis of the activity in education, the assembly of principles and functions, of norms and methods of leadership which ensure the accomplishment of the objectives of the education system (in general or at the level of component elements). The educational management has clear, hierarchical objectives, principles for effectiveness and quality, specific functions, strategic elements, the use of creativity in situation resolution, interdisciplinary and systemic approach, fundamental research. The difference compared to the general management is the specific reference to the educational purposes, to the content, to the involved human resources, to the activities centered on informing, communication and participation through educational strategies, stimulating the transformation at the level of personalities, both for the students and for the teaching-staff. The major difference at the level of this concept is that between the educational management at the macro-structural level (at the level of the education system, found in the national, European, global educational politics – eg. The Minister, the inspectorates etc.), at the intermediary level (at the level of the institution and we take into consideration the educational management of the education unit, school headmaster) and at the micro-structural level (at the level of the classroom and we have in view the educational manager of the classroom, the teacher). The distinction between the three approaches is accomplished not only based on name, authority, formal elements, but also having in mind the specialty formation, experience (not necessarily evaluated by working years) that are materialized in knowledge, competencies, attitudes and values which determine the manifestation of a responsible, efficient, authentic behavior in relation with the students, as well as the teachers. The three approaches of the educational management are un-differentiated treated from the sole reason that they can't be separated, at least for now in the Romanian educational system (in Canada, USA, etc. the school units are led by management specialists, not necessarily teachers. This condition - that the school headmaster has to be also a teacher – is stipulated in all the European legislations).

The management of the system and of the educational institutions comprises: the clear formulation of purposes, the outline of the institutional network, the elaboration of teaching content, the assurance of the legislative-normative framework, the initial and ongoing formation of the leading and didactics staff, the use of some evaluation techniques which can calibrate ongoing the system and the learning process and which could this way optimize the results.

Accomplishing an efficient management can be negatively influenced by the following obstacles: barriers and contortions at the communicative level, tense organizational climate, unforeseen problematic situations. These barriers can be produce objectively, but they can also appear due to some managerial mistakes: delay of problem solving, the partial problem solving, the involvement of the manager simultaneously in solving multiple problems, the belief that he/she knows everything very well, the lack of failure responsibility assumption and the tendency of blaming others, as well as wasting the time of the followers.

### 3. Conclusions

The manager sums up the conditions of a profession because this position requires training, it aims at accomplishing some objectives by collective continual participation, requiring a complex of theoretical and practical knowledge, of capacities and competencies.

The manager profession has two meanings: a large one, of activity through which one earns his existence, an occupation; a narrow one, to define the preparation of the specialty personnel. The managerial preparation ensures a high level of professionalization as rational, creative educator in the conception, accomplishment and optimization of the educational activity.

To be an efficient manager in education through the teaching-learning of his/her subject *“the teacher has to have a broad concept on education and training, on interdisciplinary approach, a clear comprehension of the managerial position and of the derived parts, of the application for the varied educational situations. The teacher-manager can become this way a professional in education, its leadership*

*being an intrinsic attribution, a fundamental condition”*[6].

In this way is this profession differentiated from other domains where the manager profession is complementary for a specialist, because “*the included managerial professionalization of the educator is also manifested as a high level of conception, beside the proper formation of capacities and pedagogical competencies, of specialty*” [7].

The effective educational management is accomplished by optimal use of the resources, by the capacity of motivating the staff, of directing it to the objectives and of organizing it according to the aptitudes of good communication both horizontally as vertically, current evaluation, objectives and incentives for the entire staff, rational collaboration with the partners, fair attribution delegation to the followers, use of some modern leadership techniques [8].

The educational manager has to have nowadays, beside the professional and managerial competencies, the capacity to understand the educational politics at the macro-social level, the harmonization tendencies of the Romanian education with the European one.

The system for managerial training for the teaching-staff has to be permanently improved and brought to the current needs for the accomplishment of the educational manager’s assignments having as purpose the achievement of an educational product appropriate for the quality standards, capable of integrating and adapting to the demands of the beneficiaries.

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## The New Organizational Culture

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### Abstract

*Organizational culture can be understood though as some kind of collective mental programming that distinguishes members of an organization from members of other organizations, with own solutions/elements as a proper way to act in certain situations. The concept of organizational culture refers to everything related to collective standards of thinking, attitudes, values, beliefs and customs that exist in an organization. We can distinguish some visible elements, such as behaviors and common language, but mostly we have less visible components (and more difficult to identify at the same time): standards for what it means to work well and behave properly inside a company.*

**Keywords:** organizational culture, management, human resources

**JEL Classification:** M1, M14

### 1. Introduction

Organizational culture is formed primarily due to repeated interactions between members of an organization, in order to share the beliefs and values of the individuals that compose it, though there are strong factors such as: leadership style and decision-making model, level of formality, organizational structure, policies and know-how an all systems that provide value and support a particular type of behavior. Promoting positive values and behaviour is beneficial to the organization, organizational

culture can become a true catalyst for any company that takes it as a serious component. On the other hand, an organizational culture uncontaminated with negative values and behaviors that are not in line with the company's direction, become a real issue for which the management will need to find effective solutions.

### 2. Literature review

From the perspective of management, the organization culture has been coming to our research and practice in 1980s after experience management and scientific management [1]. Glisson [2] recognises that, ‘a number of studies in various organisations link culture to service quality, service outcomes, worker morale, staff turnover, adoption of innovations, and organisational effectiveness. Brewer [3] suggested that a bureaucratic working environment often results in negative employee commitment, whereas, a supportive working environment results in greater employee commitment and involvement. Li Yueh Chen in 2004 studied the relationship between the leadership and organizational commitment moderated by the organization culture. Ulrike de Brentani and Elko J. Kleinschmidt [4] used the interactions of organization culture and commitment to predicate the corporate performance.

Organizational culture has been defined as patterns of shared values and beliefs over time which produces behavioral norms that are adopted in solving problems [5]. The organization’s internal environment is

represented by its culture and is construed by the assumptions and beliefs of the managers and employees [6]. Additionally, according to Campbell and Stonehouse [7], culture can also have influence on: employee motivation; employee morale and ‘good will’; productivity and efficiency; the quality of work; innovation and creativity and the attitude of employees in the workplace. From an organizational development point of view, organizational culture could be used as different tools to help the organization to reach success, also being a powerful tool for improving business performance [8] [9].

### 3. Relationship between strategy and organizational culture

Organizational culture has a strong influence in relation to the long-term success of a company. Even though the strategy that a company applies is good, in the end, all the people are the ones who make the difference.

*The strategy is rational and logical* - Strategy is based on reason, logic, and it's clear and simple. In the absence of such a strategy, the company will have no perspective on the market.

*Culture is human and unlike strategy*, has a different meaning for each of a company's employees and take more of the emotional side. Is human, vulnerable and it changes depending on the people who define it. In many cases, the culture is significantly undervalued or misunderstood in companies in which the leaders focus on the rational side.

- strategy - emphasis on steering, while culture is organic, the emotional component of a company that allows a strategy to survive or not;
- the strategy is the title of presentation of the company, and the culture is the story to be told in a language accessible and which must indicate the mission, values, visions and expectations of the organization;
- the strategy is related to the purpose and creativity. Culture, however, measures wishes and implementing the commitment in

relation to employees in the company;

- the strategy sets out the rules of the game. How the game will take place depends on the organizational culture;
- culture creates competitive advantage;
- when a company integrating the culture in the strategy, the strategy will be sustainable;
- culture should be monitored to determine how stable the organization is.

### 4. The new organizational culture – characteristics

*A strong organizational culture attracts valuable people.* - organizational culture is an important element from the package of benefits that a potential employee looks for. Really talented people are increasingly less (most are choosing to leave the country or start their own businesses), and those still available on the job market are extremely selective. The best people are looking for more than just a high salary, they need a pleasant environment in which to have the opportunity to develop;

*A strong organizational culture creates loyal employees.* – organizational culture is the key component that influences the loyalty of the team members. Investing in people motivates the, likely increasing the company's value;

*The culture of an organization can increase productivity.* - most of the employees want to be active in the projects around the company, getting to know it better. Also, organizational culture of the company can motivate people. A properly motivated team has a higher productivity, which in turn directly influences profitability;

*A strong organizational culture creates energy and excitement.* - a culture of a company that is full of vitality, similar to people's desire, encourages creativity and free expression, creating an extremely powerful energy. That positive energy will come to define the organization, becoming a push to success. The excitement is



transmitted very quickly to the people around , leading in turn to the market and building a positive image of the company to potential employees;

*A company's culture can approach people.* - a strong organizational culture brings people together. When team members have an opportunity to communicate and get to know each other better, they will form new connections. These connections will lead to new ideas and wise decisions, especially in difficult situations when the formal relationship is falling apart and conflicts may break out more easily;

*The culture of an organization can change the perspective of the word "work".* - Many people have a negative image of the word "work". Work means effort, rigid program, a "stone mill". When creating an attractive organizational culture, people's perspective about "going to work" will change.

Any of the above reasons is enough to cause you to focus more on corporate culture. However, the most important is that, in addition to the development of the people in the team, organizational culture develops the company itself. Along with strengthening the common vision and values to the team members, business profitability will increase significantly.

## **5. The new organizational culture: motivating the volunteers**

Organizational culture is a complex mechanism to which always counts the human resource. The internal culture is one that holds an organization, representing the most powerful force for cohesion, allowing its members to have a common vision on events and giving them the stability to which the organization needs to survive in a world that constantly changes. An organization is more than just a collection of buildings and strategic analyses, it is represented primarily by the people of the inside, they are the real engine.

Without a doubt, the techniques of motivating the volunteers in nonprofit organizations differ from those used in companies. One becomes a volunteer in the first place to support a cause, to get involved in community life. The desire to help is the

main motivation of volunteers everywhere, but depending on the magnitude of the project and the possibilities of the organization, they can also benefit from certain privileges. Perhaps the most effective form of motivation is the recognition of the work and efforts of volunteers.

An important place in the list of methods for customer loyalty of volunteers is the concern for the development of their personal and professional life. The specific needs of volunteers and their involvement in programs that respond to these needs and provide rewarding both professionally and personally, matters a lot for those working in the voluntary scheme. If for some, work in an NPO is only the first stage of professional development, others work in a nonprofit organization to have full time job later in their life.

## **6. Conclusion**

Organizational culture constitutes another important element, and which has a direct influence on the economic outcomes of an organization. It can be located on a level between individual attitudes and intermediate mentality being influenced by both, manifesting itself within a smaller teams, as is the case of professional organizations. In this context, we can make a distinction between culture, seen as a very broad concept (mentality of being part of it), and organizational culture. Culture is the set of values that determine the behavior and attitudes of acceptable or not members of a society. Organizational culture is the set of traditions, concepts, procedures, values and attitudes that create the context of activity within organizations.

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## Some Aspects of Intrusion Detection in IoE

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### Abstract

*People, processes, pieces of information and things are now presented together in the new concept, called Internet of Everything (IoE). Information security must be carefully analyzed and reconsidered in order to face new challenges of the IoE . The first two parts of the article point out these issues. The third part of the paper highlights security attacks, security services and security mechanisms. A number of IoE solutions for Intrusion Detection Systems, in the context of using computational intelligence methods, are presented in part four. IoE virtual Honeypots solutions are identified in the last part of the paper.*

**Keywords:** IoE, Information Security, Intrusion Detection System (IDS), Honeypot  
**J.E.L. Classification:** L8, M1, M3.

### 1. Introduction

In August 1962, J.C.R. Licklider from MIT introduced the concept of “Galactic Network” [1], basically beginning to lay the foundation of the Internet as a global network communication. As a concept of global interconnection, the Internet of today is not much different. But technology has evolved very fast. Each decade has made its mark on the development of the Internet [2]. Today, with a penetration rate of approximately 40.4% of the world population [3], the key terms are “more data, more collaboration, and more complex systems of interactions” [4]. Cisco has defined a new concept called Internet of Everything (IoE) [5]. To start

with, it refers to bringing people, processes, data and things together. There are obtained network connections which are more relevant and valuable than ever before. This is accomplished by transforming the pieces of information into actions that create new functionalities. IoE allows the creation of economic opportunities for individuals, companies and countries. Cyber attacks, emerging threats, and new vulnerabilities present new challenges for the IoE. Cybersmart, Cybersecurity, and Cybersafety are some of the strategies adopted by many countries in the education and research programs. It is important to be brought into attention for the economic and business environment to be an active partner in implementing IoE Security.

### 2. IoE Overview

IoE appears as a higher level of the Internet of Things (IoT), which corresponds to the networking of physical objects and the use of one of the existing communication technologies, with the purpose of creating greater utility value [6].

We refer to the IoE when adding superior capabilities to the IoT. These can include: the awareness of the context, an increase in the power of processing, independent energy supply and increasing of the recruitment and use of new types of information that are connected. IoE is heterogeneous, comprising both products and services vertical and horizontal - wired and wireless, indoor and outdoor pools, and is populated by a variety of products that fall within the range of simple devices to complex computing devices. All these capabilities are smart

networks and services that are connected. The evolution of the Internet has been through four distinct phases, each characterized by a rapid growth of increasingly large business and, generally, of establishment: connectivity, network economy, collaborative experience, Internet of Everything (IoE). Services like the e-mail, web browsing, search content etc, are specific to the connectivity phase. E-commerce and supply chain digitization of the economy are characteristics of the second phase, the network economy, which has begun in the late 1990s. The collaborative experience with social media services, video, mobility and cloud computing completely transformed the world, starting with the year 2000. This is the IoE's stage of evolution of the Internet that connects people, processes, data and things. According to some studies [5],[7], it is expected that the number of connected devices and objects will exceed 50 billion by 2020. By 2022 the IoE can increase company profits by over 20%. Until 2018 data traffic in mobile networks will grow 11-fold to 190 exabytes an annual volume of 190 exabytes [8]. In the context to the increasing number of mobile connections to the Internet, mobile devices, but also to the number of connections and Machine-to-Machine (M2M), they will exceed the 10 billion by 2018 [8]. Cloud services are key to the IoE deployments. It is expected a significant increase in data traffic in the cloud, from 3.1 zettabytes in 2013 to 8.6 zettabytes 2018 [7], [8]. IoE becomes a network of networks where billion connections create unprecedented opportunities, but also new information security risks. Information to anyone, at any time and can be accessed from anywhere is what the people wanted all the time from the Internet. Software vulnerabilities, erroneous configuration, negligence regarding the handling of data are some of the causes that led to the problem of the Internet regulation. Four phases are defined [9] for the Internet regulation: *open Internet*, from the network's birth through about 2000; *access denied*, through about 2005; *access controlled*, through about (2010); and *access contested*, the actual phase.

### 3. Security Approaches

Information security is a broad concept that refers to the insurer of the integrity, of the confidentiality and availability of information, regardless of its form. Authentication, authorization and non-repudiation are closely related to the IoE entities (people, processes, things) that are using this information.

In the security sense it is discussed attacks, mechanisms and services [10], [11]. Any action that compromises the security of information represents a security attack. This action can be passive (a release of message contents or traffic analysis) or active (Masquerade, Replay, Modification of message contents, Denial of Service - DoS, Distributed Denial of Service - DDoS). A security mechanism is designed to detect, prevent, or recover from a security attack. Encipherment, digital signature, access control, data integrity, authentication exchange, traffic padding, routing control, notarization are some of the main security mechanisms that provide adequate security. Security service enhances the security of data processing systems and information transfers. A security service makes use of one or more security mechanisms. The main security services are: data confidentiality (connection, connectionless, selective field, traffic flow), authentication (peer entity, data origin), data integrity, non-repudiation (with proof of origin/ delivery), access control, availability.

An intrusion is defined as a set of unauthorized activities attempting to compromise integrity (the attacker can modify the system state and alter the data without proper authorization from the owner), confidentiality (the attacker gains access to confidential and otherwise inaccessible data) or availability (the system is either shut down by the attacker or a resource made unavailable to general users). One can reach the critical situation in which the attacker gains full control of the system and can alter the access privileges of the system, with a potential risk of compromising overall system resources.

Intrusion Detection corresponds to a set of techniques and methods used to detect suspicious activities at both the host (Host Based Intrusion Detection - HIDS) and/or the network level (Network Based Intrusion Detection - NIDS). It is very important the analysis of the suspicious activities in order

to detect the possible incidents of imminent threats of violation of security policies, acceptable use policies, or standard security practices. The detection of any intrusion and the attempt to remove a possible incident allows the intrusion prevention. Intrusion Detection Prevention Systems (IDPS) encompasses both the detection and the intrusion prevention aspects. Referring to the IoE, few of the main purposes for which the IDPs sites should be considered are:

- The identification of possible incidents, recording information about them, trying to remove the incident and reporting it to the security administrators.
- The identification of issues regarding security policies, documenting the existing threats and deter individuals to violate the security policies.

#### 4. Related Work

Intrusion detection methods are relatively new. These involve gathering information about known attack types and detection of any attempts to compromise a network or, in particular, attack one specific entities in the network. Detection of intrusion depends on the understanding of the security administrator of how the attack works. The information collected can be used to strengthen the strategic security of a network or other legal purposes.

In terms of techniques used, an IDS can be passive (detects a potential security breach, records information and alerts the administrator) or active (suspicious activity responds by terminating the connection or blocking network traffic from suspected malicious source). On the other hand, the IDS may be based on anomalies (Anomaly Based IDS – ABIDS) or signature/rule based (Signature Based IDS - SBIDS) or hybrid.

An ABIDS establishes a baseline of performance-based on assessments of normal network traffic. The IDS will report current network traffic from the baseline established to assess whether or not fall into the normal range. A fully taxonomy of ABIDS [12] contains a series of Techniques used to detect intrusion, with a number of remarks about the advantages and disadvantages: Statistical anomaly (Operational Model or Threshold Metric, Markov Process Model or Marker Model, Statistical Moments or Mean and

Standard Deviation Model, Multivariate Model, Time Series Mode), Data mining based approach ( Clustering, Association rule discovery, Classification), Knowledge based detection (State Transition Analysis, Expert Systems), Signature Analysis, Petri Nets), Machine learning (Bayesian Approach, Neural Networks, Fuzzy Logic, Genetic Algorithms, Support vector machines). To this it is added ABIDS based on new technologies such as: Evolutionary Computation [13], DNA Computing [14], Membrane Computing [15], Quantum Computing [16], Swarm Computing [17].

A SBIDS examines the network traffic looking for preconfigured attack patterns and predetermined known signatures (e.g., nature of data packets, failed attempt to run an application, failed logins, file and folder access etc.). A collection of such signatures must be updated constantly. A SBIDS has the following advantages: simple to implement, lightweight, low false positive rate, high true positive rate for known attacks. The disadvantages of SBIDS are: signature database must be continually updated and maintained, may fail to identify a unique attacks and low detection rate for zero day attacks [18]. There are a number of solutions based on Snort [19], Aho-Corasick Algorithm [20], Boyer-Moore Algorithm [21].

Different types of IDS or combinations of them, may (or may not) be appropriate to protect the resources of IoE entities, depending on the security policy adopted. It is very important to take into account a number of factors that may limit the capabilities of an IDS. These include: failure to update signatures - a collection of signatures that is not updated can leave the IDS vulnerable to attack strategies; a small number of attacks – the real attacks can be so far below the rate of false alarms that are usually ignored by the IDS; very high rate of false alarms due to erroneous packets generated by the malfunction of software, altered DNS data and lost local packets. In addition, the attacker has access to a number of techniques to avoid the IDS's: DoS/DDoS attacks on IDS - it consumes the resources and generates a large number of false alarms and are able to hide real attack; traffic insertion in IDS - an attacker can send packets that will reach not only the target IDS station resulting in a series of false

alarms; protocol violations – deliberate violations of TCP or IP so that the target station will handle different packages than the IDS; overlapping fragments - technique that involves creating TCP packets with sequence numbers that are overlapping; fragmentation and sending of small packets - a basic technique which involves the fragmentation of information into multiple smaller packages makes it impossible to reconstruct the IDS session.

Intrusion Detection depends on the understanding of how the attack works by both administrators in security, in general, and by an information security culture [22], [23]. This way, the IOE brings together people, processes, and things.

### 5. Honeypot as IoE Security Solution

The Honeypot (HYP) is a flexible, software and/or hardware, used for detecting or rejecting the unauthorized use of a system attempts, recording instruments used by attackers. When the HYP detects an intruder, it seems to be part of a defenceless components of the system (though isolated and protected), that contains both useful files and pieces of information that allow access to other networks. Once the intruder process enters the system, the IDS records information about it. For the regular users, the HYP does not have any value while interaction with it is an unauthorized activity. The HYP only collects information when an entity is interacting with it, having the specific nature of the trap. Data generated are fewer, and thus easier to analyse. Since interacting only with unauthorized activities, suitable for attack attempts, the number of false alarms is small. It should be pointed out that there are some drawbacks to be considered: introducing of a significant risk factor in the system as a result of exposure to potential attacks; specializing in a particular type of interaction, such as http, smtp or ftp services; because they have a common behaviour, there is a risk for the HYPs to be easily detected.

- With low interaction: emulate network services or components of an operating system; they are easy to install, more secure, but collect less information.
- With enhanced interaction: simulate all aspects of an operating system; they can

be fully compromised, allowing other attacks; collect large amounts of information.

For the IoE, HYPs can successfully contribute to improving the security of the entities. Through HYPs attack tools and methods, as well as methods of communication, organization and motivations of attackers can be determined. Our experiments have shown the benefit of virtual HYP solutions: HoneyDrive [24], Dionaea [25], Kippo SSH [26], SHIVA (Spam HoneyPot with Intelligent Virtual Analyzer) [27].

### 6. Conclusions

The Connectivity and advanced intelligent interaction between people, devices, systems and services, this is what IoE is ready to offer. The interconnection will require new strategies in all areas and will allow the development of complex applications. In such a context, the entire vision on information security will change. Of course, there will be different running costs. In Europe the information security budget has increased in 2014 compared to 2013 from 3.0 million \$ to 3.4 million \$, and in the US from 4.5 million to \$ 4.6 million \$ [28]. Security policies and processes will be part of the core of the IoE Security. Security based on identity is the favorable solution for the IoE in connection to security based on perimeter. Intrusion detection requires finding new solutions based on computational intelligence and virtualization. Among other things, IoE includes: permanent identification of possible weaknesses, constant review of the security policies and a continuous process of security education.

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## Dilemmas on Student's Place in Defining the Higher Education Institutions' Marketing Strategy

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### Abstract

*Higher Education Institutions (HEIs) are increasingly aware of the importance of adopting a marketing orientation in their activity. We consider this is a reaction to the challenges these institutions have to face nowadays. But, for developing effective marketing strategies, HEIs must first clarify the main concepts of marketing in the context of their complex and also sensitive activity.*

*The aim of the paper is not necessary to clarify the aspects of marketing concepts into the context of HEIs activity, but to provoke the specialists and to generate more academic debate for answering questions like: How do we define value in the context of higher education marketing? Who is the client of higher education services and which are the stakeholders? What is the place of the student in defining HEIs' marketing strategy? We try to present some arguments intending to prove that things are not as simple as they look like.*

**Key words:** higher education marketing, Higher Education Institutions (HEIs), educational marketing, societal relationship marketing

**J.E.L. classification:** M31

### 1. Introduction

There are no doubts regarding the importance of education as an essential factor that influences the development of any society. As part of the educational sector, the Higher Education Institutions have a multifaceted importance because of their role in the society and in the economic environment [1]. Both the contributions to knowledge and research and the link they must create with the economic environment [2] emphasize the importance of their

activities and their role for the society as a whole. But the environment in which the HEIs operate changed substantially in the last years and the challenges these institutions have to face nowadays are complex and may generate paradigm shifts regarding their marketing activity. These challenges are the result of worldwide phenomena such as internationalisation and globalization, demographic trends, changes in the funding mechanisms or the impact of information and communication technologies [1], [3], [4], [5]. HEIs are now in the situation of looking for solutions that will help them face the increasing level of competitiveness both in the national and international context. In accordance with these tendencies, HEIs tend to show an increasing level of interest in marketing activities and are increasingly involved in developing more complex marketing strategies. How these strategies must be elaborated and who is the core of these strategies seems not to be yet clear.

### 2. Higher education marketing dilemmas

Even if Kotler and Fox [6] emphasize the importance of marketing in the industry of educational services industry since the middle of '80s, we consider that the concepts are not yet clearly defined and understood in this field and more debate is needed. On the other hand, even if in the academic literature there is still no consensus on the place of marketing in the higher education institutions activities, the specialists are aware that there are potential benefits of applying the marketing vision for the higher education sector [7]. Filip [8] highlighted that there are positive effects of higher education marketing both on individuals and community as a whole, but also on the financial situation of the universities.

Therefore, we consider that addressing the concept of marketing for the HEIs starts with



the attempt to clarify the basic concepts: the value, the client and the important stakeholders, the appropriate marketing philosophy for HEIs.

According to a definition offered by the American Marketing Association (2008) [9], an essential part of the marketing concept is the creation of value dedicated to customers. Placing this in the context of HEIs marketing strategy, we consider important to understand:

- “What is the specific form of the value offered by higher education institutions?” and
- “Who is the client of higher education services and which are the stakeholders?”

### 3. How do we define value in the context of higher education marketing?

The development of effective marketing strategies for any organization, including HEIs, is based on a deep understanding of the concept of “value”. The topic of value creation in the educational marketing context was not a much discussed one, at least so far. As any abstract concept, *value* in marketing is a very provocative concept regarding its conceptualization and measurement [10]. It is not easy to define such a concept as *value* and probably it is more difficult to understand and define it for a domain like educational marketing because of its sensitivity and importance for society. Even so, when referring to value in the context of marketing for educational services, it would be useful to have the answer to the question: “What is the concrete form of value created by the higher education institutions?” Maybe, to some extent, it can be defined as “*the experience of learning*”. Or maybe the experience of learning is just the core of the value offered by the higher education institutions.

According to Sakthivel and Raju cited by Sánchez-Fernández et al. [23] for education to be excellent, the perceived value should have great impact both on students’ knowledge, but also on their personal development.

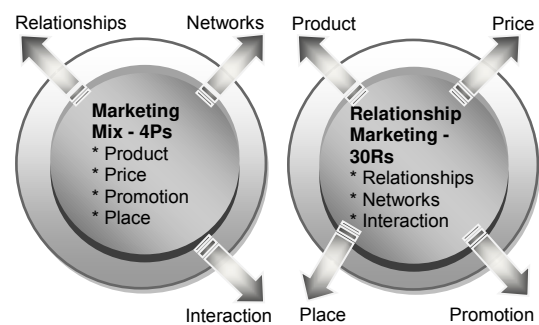
In order to underline the essence of this idea, we present the definition Ho [11] offers for the teaching activity saying that *teaching is not the art of filling the mind of students with knowledge in the way one would fill an*

*empty receptacle, but teaching is a two-way learning process in which the student and the teacher help each other to learn by sharing their insights and difficulties with each other.* Considering that teaching is a tool meant to manage the interactions between the student and the university, Tat et al. [11] also say that teaching can play a central role to ensure the quality of academic processes, but also can be a source of competitive advantage.

Based on the above definition, *the experience of learning* highlights the active role of the student within the process of value creation and makes us consider that an approach specific to relationship marketing is more appropriate for the higher education services than the one specific to the transactional marketing.

The vision specific to relationship marketing comes with a new paradigm of the marketing thinking, a shift in hegemony – from the 4Ps to relationships, networks and interaction [12]. The idea is clearly described in Figure 1. Moreover, the relationship marketing vision emphasizes the involvement of the customer as an active participant and, thus, a co-producer in the creation of the offer [13].

Figure 1. A shift in hegemony: from the marketing mix to relationships, networks and interaction



Source: based on Gummesson, E. - Total Relationship Marketing, 3rd ed., Butterworth-Heinemann – Elsevier Ltd., Oxford, p. 325

The relationship marketing approach for higher education services is also suggested by other scholars [20], [23], [24].

#### 4. Who are the stakeholders and who is the client of educational services?

The development of marketing strategies by universities should be based on the knowledge of customer expectations and the degree of satisfaction in terms of performance offered by them [8] and, for this it is essential to identify all the categories of stakeholders involved in the smooth running of these institutions. Kotler and Fox [8] identify in 1995 16 categories of stakeholders: current students, prospective students, faculties, parents of students, university employees, graduates, suppliers, competitors, government organizations, business environment, media, foundations, board of directors, accreditation bodies, local community and general public. We consider that the identification of the categories of stakeholders in the activity of higher education institutions is an important part of their marketing strategy because each category has its own expectations regarding the educational process. More recently, Mainardes, Alves and Raposo [14], in a large study aimed at identifying and prioritizing the stakeholders of universities conclude that they can be classified according to several criteria as follows: internal or external, individual or collective, academic or non-academic. According to their study, a list of 21 stakeholders resulted and the main stakeholders proved to be the students, the teaching and/or the research staff and the employers [14]. A study meant to identify who the stakeholders are, in the view of those who coordinate the activity of universities in Romania – comparatively between the public and the private sectors - we think it would be a necessary and useful initiative for the good running of these institutions.

However, there is no doubt that one of the most important, perhaps the most important category of stakeholders in the context of higher education, is represented by the students/potential students. Still, in the literature, there is no unanimity in considering the student as the *client* or the *product* of academic services. Moreover, neither in practice it is clear enough to what extent the approach that places "the student as client" at the core of the institution's strategy is a right one [15]; [16].

It is interesting to note that the higher

education marketing, at the mid-80s when it appeared in the interests of specialists, emerged as an offshoot of health care marketing [8]. Just like in health care services, where only lately the trend has emerged (at least in literature and probably less in practice) to overlap in meaning, the concepts of patient and client [17], [18], [19], in the context of higher education institutions there is also reluctance to overlap the concepts of student and client. In the research they conducted, research which involved the analysis of the literature that tries to highlight how the student is viewed in the context of the activity of higher education institutions, Tat et al. [11] conclude that there are some metaphors that describe the student, of which three are the ones that appear most frequently: the student – as product, the student – as client, the student – as employee, and the authors also suggest a fourth metaphor: the student - as partner. The authors mentioned above also identify a number of voices who do not approve the idea of considering the student as the customer of educational services [11], holding that such an approach can be a dangerous one that could harm the image of higher education. The basic argument of the latter category of authors is that education services cannot be reduced to a simple transaction, the student being expected to be an active partner in the development of the educational process, someone who not only receives but also gets involved in creating the service. There are many pros and cons of considering the student as a customer of educational services. It should be noted including the fact that, in this situation, the prospectus (the potential student) needs to compete and qualify to become a customer of the services.

#### 5. Conclusions

It is important both for the academic literature, and for the managers of higher education institutions to understand and clarify the main marketing concepts regarding the higher education field. Only this way the marketing strategy will have the necessary consistency to create the beneficial environment both for the HEIs, the students and other stakeholders, and also for the society as a whole. It must be mentioned that

the customer environment created around the HEIs placed them in the difficult situation of trying to maintain a balance between the academic integrity [20] and the need to be successful on the market.

As mentioned before, the vision specific to relationship marketing seems to be a better approach for higher education services than the one specific to transactional marketing. This approach is perceived from a relational perspective that highlights the importance of creating, developing and maintaining relationships with customers (especially the valuable customers) and the other important stakeholders. But also, an approach that is perfectly suited to the mission of higher education services is the one specific to the societal marketing [1]. According to Philip Kotler, societal marketing is a vision that brings to the front the organization's interests, the customer wants, and also the whole society's interests [21].

So, the visions specific to relationship marketing and societal marketing could be the two pillars to develop the strategies in higher education services. And a mixed perspective could bring us to the concept of societal relationship marketing. According to the current state of this research, the concept of “*societal relationship marketing*” was previously used in 2007 by Liebrez-Himes, Shamma and Dyer [22] in a context related especially to the stakeholder theory and the new electronic marketplace. The authors stated that *societal relationship marketing is going to be a vital element in the new world* [22].

Certainly there will still be much debate on the subject. It would be interesting to answer the question: *To what extent is the quality of educational services influenced by the fact that the student is considered as customer?* And also, it would be interesting to find out *how the student is perceived (from the marketing perspective) by the educational staff of HEIs.*

In the context of higher education services, and if we accept as true the concept “student-as-customer”, are we still able to say “The customer is always right”? And if yes, how do we understand this statement and how do we implement it without jeopardizing the academic integrity?

## 6. Acknowledgements

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## The University as a Generator of Entrepreneurial Education

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### Abstract

*The higher education system in Romania has to face within these recent years challenges such as: the significant decrease in the number of candidates, insufficient government funds, an increasing disengagement culture among the students, the changing learning styles of students and the changing priorities in their career. All these realities compel the decision making factors of the higher education to rethink the system in order to ensure its survival. Rethinking the system might involve the need to reengineer it and not only to improve it in small steps. The solution proposed for this purpose is an entrepreneurial university. We aim to provide information on how this reengineering process might be done by investigating the current inclination towards entrepreneurship of our students and the changes that could be taken in order to improve it.*

**Key words:** entrepreneurial university, entrepreneurial education, entrepreneurial spirit

**J.E.L. classification:** A23

### 1. Introduction

The motivation for this work emerged several years ago and was triggered by the public response to the departure of Nokia Company from Romania. We asked ourselves then the natural question: "Does the Romanian economy depend so much on one company?" The answer seems to be affirmative given the scale of public discussions that accompanied the event but also the actual figures such as the weight of

the company's exports in the total Romanian exports at that time. The situation is worrying especially due to the fact that Nokia is a company with foreign capital. Analysing the present figures, it seems that the situation is not more encouraging. Relevant is the fact that 83,25% of our country's exports are made by companies with majority or minority foreign capital. According to Mihai Ionescu, the General Secretary of the National Association of Romanian Exporters and Importers (NARED): "... If Romania would have settled to rely only on the Romanian companies, we would have achieved in 2014 an export volume equal to the export of year 1989" [1]. The ratio of forces between the domestic and foreign capital is highlighted by the 0.5 billion Euros representing the exports of the five largest private capital Romanian exporters compared to the 7.6 billion euro of the first five multinational companies in Romania [2].

Without resonating with the description made to Nokia after its departure from Romania, according to which it had a "behaviour of industrial grasshopper" [3], that was when we were made aware of the risk to which an economy dominated by foreign capital is exposed, but also of the importance of stimulating and encouraging the domestic capital as a balance factor for the socio-economic development of a nation. Consequently, as academic teaching staff, we have become preoccupied by the modalities through which the Romanian university can contribute as education provider to the development of local entrepreneurship.

The aim of this work is to increase the level of awareness regarding the importance and the role that the Romanian University needs to take on in providing an entrepreneurial education for the new generation of students. As a result, we have

decided: to describe the concept of entrepreneurial university, the responsibilities that the university must take on in this respect and the range of tools at hand for the operationalisation of these responsibilities. We shall conclude the paper with a research regarding the inclination towards entrepreneurship of the students within the Faculty of Economic Sciences in Oradea, a research designed to assess the extent to which the faculty is one that provides entrepreneurial education. This diagnostic should form the base for the decisions to improve the capacity of the institution to provide such an education in the future. This research can be a model of good practice also for other institutions of higher education concerned with entrepreneurial education.

## 2. Education and entrepreneurship

In elaborating this work we have started from two extremely important findings:

- „A country's competitiveness starts not on the factory floor or in the engineering lab. It starts in the classroom.” [4]
- “[...] often the traditional education forms good employees, but not creative entrepreneurs capable to assume the risk of working on their own. [...] the stiff studies, even if they are focused on the development of certain skills needed by entrepreneurs, may not lead to an attitude that will determine students to assume the risk of entrepreneurship, of innovation and experiment.” [5]

These facts point out that, on one hand the education plays a major role in the economic development of a nation and hence the creation of well-being, and on the other hand that one of the responsibilities that the education system needs to take on in this regard should be the encouragement and support of entrepreneurship among the new generations. Based on these aspects we consider extremely important to deepen and promote the concept of entrepreneurial university in the higher education system in Romania, concept which will be presented in the next chapter.

## 3. The entrepreneurial university

The entrepreneurial university considers a

priority providing an entrepreneurial education to its students and creates the necessary framework for them to become and manifest themselves as entrepreneurs. An entrepreneurial education consists of cultivating those values which predisposes the students to the initiation of a business and to developing the necessary skills to be successful in initiating and developing a business. In a broader sense, entrepreneurial education represents: „not only a means to foster youth entrepreneurship and self-employment but at the same time to equip young people with the attitudes (e.g. more personal responsibility) and skills (e.g. flexibility and creativity), necessary to cope with the uncertain employment paths of today's societies. Young people can no longer expect to find the traditional ‘job-for-life’ careers but rather ‘portfolio careers’ (contract employment, freelancing, periods of self-employment etc.)” [6]. In this context, the main responsibilities of the entrepreneurial universities would be:

A. Promoting the culture of entrepreneurship within the society, in our case Romania, so that entrepreneurship as a career choice would become a matter of self-realization for the greatest possible proportion of the population. This creates a favorable framework for the new generations of students in terms of Romanian society values so they can become entrepreneurs. It is a difficult mission which needs to be undertaken in collaboration with other actors who contribute to the improvement of the entrepreneurial environment in a society, such as: actual entrepreneurs, press, organizations supporting entrepreneurship.

B. Promoting the entrepreneurship culture among the new generations of students by cultivating the values that predispose them to entrepreneurial initiative and to success in the development of a business. From our point of view this needs to be done starting also from the cultural matrix of the Romanian people. The importance of the first two categories of responsibilities presented is confirmed by a few conclusions of the Romanian Entrepreneurship Barometer 2013 brought off by EY [5]:

- 59% of the respondent entrepreneurs consider that the Romanian mentality and values do not support entrepreneurship. A possible explanation may be the 50 years

of planned economy during which the private property and initiative in economy lacked almost totally.

- Only 5% of the Romanian entrepreneurs consider the failure in business an opportunity for learning and 81% of the respondents consider that the fear of failure will be a barrier to the development of entrepreneurship in the future. One of the explanations is also the way in which the Romanian education generally refers to failure, condemning it rather than viewing it as a source of learning. The fear of failure inhibits the availability for risk taking, and that is one of the most important traits, values of entrepreneurs.

C. The development of entrepreneurial skills of students to enable them to develop a successful business. From using the PC and the virtual environment to developing a business plan, from communicating in an international language to the negotiating skill, these are all examples of competencies necessary for an entrepreneur.

D. Creating the conditions, the necessary framework to facilitate the transition from the student's business idea to the effective business. This category includes: student business incubators, events to facilitate the students' networking with potential facilitators (investors, clients, mentors etc.).

By undertaking these responsibilities, the entrepreneurial university facilitates the process of entrepreneurial formation for its students, a process that involves the following main steps: acknowledgement of the entrepreneurship as a career option by students; evaluating and analyzing the students' inclination to entrepreneurship under the system of values they have; development of entrepreneurial skills; creating the support framework for the transition of students/graduates to the entrepreneur status.

Taking on the responsibilities specific to an entrepreneurial university and facilitating the process presented above can be done by resorting to the following toolkit: lectures about entrepreneurship, presentation of success stories related to entrepreneurship, internship, work visits in companies, simulations of the type “create and operate your own business”, mentoring programs conducted between representatives of the

business environment and students, business plans competitions, business incubator in the university, organizing entrepreneur clubs in partnership with the business and non-profit environment; fair of business ideas where students can receive feedback from entrepreneurs and can do networking for the purpose of identifying facilitators such as mentors or investors, creating partnerships with financial institutions for providing credit and savings products to students. An example of entrepreneurial university recognized for its good practices within this field is the University of Washington in the USA [7].

In conclusion, assuming the role of entrepreneurial university is a necessity in any society and particularly in Romania due to: the need to adapt the education system to the new realities of the market and economy; the impact on economic growth due to the increase in the number of new set up firms; the reduction of unemployment particularly among young people, who are one of the most vulnerable category from this point of view; the need to provide models for the new generations. The sooner the decision making factors of the higher education system in Romania will be aware of the need to set the universities in our country as entrepreneurial universities and will act in this direction, the more important the Romanian higher education will become as vector of social-economic development, creating value for the stakeholders involved: students and their families, companies, economy and society as a whole. As a result, the entrepreneurial university becomes a necessity for the higher education system in Romania.

## 4. Methodology

Data was collected using an online platform anonymously in order to minimize biases in responses. The participants responses were processed and analyzed using Excel 2007 and R 3.0.3 software.

### 4.1. Participants

The participants of the current study are 97 students of the University of Oradea Faculty of Economics. The gender distribution was skewed (79,81% female). This is typical for Economics studies in Romania and in accordance with

international trends [8], however the skew is higher than optimal. 51% of the participants were originally from the rural environment, which shows a clear evidence of educational motivated (at least temporary) migration. Around 1/2 of the participants (53.6%) had previously followed an economics specialization in high-school, and thus their interest in the field of economics could be considered to be long lasting.

Regarding their occupational profile 59% of the participants identified themselves only as students, 4% also as entrepreneurs, 12% as volunteers and 25% as employees (participants were allowed to select multiple choices).

#### 4.2. Instruments

A questionnaire comprising a total of 22 questions regarding the background, entrepreneurial intent, activity and educational experience was developed and used specifically for the purpose of this study.

#### 5. Results

Quantitative results undergone a preliminary analysis in order to identify patterns. The responses to entrepreneurship related questions were in line with our expectation. A small number (4%) of respondents were active entrepreneurs and high number (57%) had some intent to become an entrepreneur in the next 2 years, with 22% of the total respondents indicating their intent to be at the highest level.

Gender doesn't seem to play a significant role in the intent to become an entrepreneur ( $t = 1.828, p = 0.06$ ) and neither does origin environment ( $t = 1.235, p = 0.22$ ).

Almost one half (43%) of respondents had participated in trainings or educational programs outside the university, this however showed no significant relation to entrepreneurial intent ( $\rho = 0.189, p = 0.07$ ).

One third (35%) of the students report having a mentor the supports them in their entrepreneurial initiatives, and this factor is significantly correlated with entrepreneurial intent ( $\rho = 0.266, p = 0.009$ ). The most important mentor seems to be one of the parents (38% of mentors), a friend (27%), a businessperson (24%) and only occasionally

a teacher (5%).

The higher education institution could bridge this gap between eager students and experienced professionals through partnerships with the business environment in order to provide adequate and high quality mentoring opportunities.

75% of students have an entrepreneurial model that inspires them, which is significantly correlated with their entrepreneurial intent ( $\rho = 0.309, p = 0.002$ ). Only 37% of them report learning of their model from the faculty, which is however above the values for mass-media (23%) and friends (24%).

The most commonly associated terms with entrepreneurship are self-accomplishment, challenge and independence (Table 1). Therefore the higher education institutions should offer students learning opportunities and to use teaching methods that can stimulate and develop these qualities, if it aims at becoming an entrepreneurial university.

For the young students it would seem that the closest ideas to that of entrepreneurship are those connected to the ideal self. The classical choices (flexibility, social status and material gain) in turn occupy the last places on the scoreboard.

All the terms positively correlate with entrepreneurial intent, with the exception of Challenge. This indicates a clear difference in the vision of entrepreneurship between those with clear intent and those without, as the strongest relation can be observed with material gain and flexibility.

Table 1. Terms associated with entrepreneurship

Term	Score	Correlation
Flexibility	3.46	0.380
Social status	3.63	0.272
Material gain	3.66	0.402
Possibility to create social value	3.82	0.236
Independence	3.94	0.375
Challenge	3.97	0.185 (n.s.)
Self-accomplishment	4.20	0.344

When it comes to the impact of self-assessments on entrepreneurial intent, a clear positive correlation could be observed between intent and the evaluation of knowledge, competence and experience



required to start a business (Table 2).

This is to be expected, as more confidence in ones abilities is often invoked as a factor differentiating entrepreneurs from the rest [8,9,10].

Table 2. Self-assessment of abilities to perform as an entrepreneur

Criterion	Correlation with intent
Knowledge	0.422
Competence	0.437
Experience	0.375

Regarding the Values and Competencies that young students most often associate with entrepreneurial success the most often invoked ones are vision, creativity and passion (Table 3).

Table 3. Values and Competencies that students associate with entrepreneurial success

Value / Competence	Score
Vision	76.29%
Creativity	73.20%
Passion	64.95%
Risk propensity	37.11%
Foreign languages	37.11%
PC skills	36.08%
Time management	30.93%

Regarding the opportunities to develop the values and competencies required for entrepreneurial success we can observe that there is a lack of correlation between what students rate as important and what they report that they have benefited from (Table 4). The most important opportunities in their opinion are Trainings from company employees, simulations, mentoring, internships and external speakers. It would seem that regarding some of these issues the university has at least partly covered their needs, as 1/3 of respondents have participated in internships and almost 1/2 have had the experience of listening to an external speaker. However much work is still to be done on the other aspects, mainly simulations and mentoring where so far the student experiences have been lacking.

Interestingly only Participation in Entrepreneurship classes was significantly correlated to entrepreneurial intent ( $\rho = 0.206$ ,  $p = 0.043$ ).

Table 4. Opportunities assessed as important for entrepreneurial success and the student participation rate in them

Opportunity	Average score	Participated
Trainings from employees	4.053	16.49%
Simulations	3.926	0.00%
Mentoring	3.884	6.19%
Internships	3.853	35.05%
External speakers	3.823	45.36%
Business incubator in the university	3.747	1.03%
Business plan competitions	3.705	31.96%
Work visits	3.681	36.08%
Research partnerships	3.606	0.00%
Entrepreneurship classes	3.594	22.68%
Seminars	3.432	98.97%
Classes	3.042	97.94%

The respondents were also invited to express their opinions on what opportunities the faculty should provide its students to better develop their entrepreneurial related competencies and values. This was an open ended question, that only 40 respondents choose to answer. Their answers were analyzed and coded into 8 categories that emerged from the similarities in responses (Table 5).

Table 5. Coded open-ended responses on opportunities that should be offered by the Faculty

Measure	Number of respondents
A more practical approach	20
Partnerships with businesses	8
Updated Curriculum	5
Competitions with rewards	5
Stimulating creativity and flexibility	4
More projects	3
More internship opportunities	3
Lower taxes	2

The most important issue seems to be the practicality of the approach, and a closer relation with the business environment.

Interestingly several of the means to promote an entrepreneurial university that we

have proposed initially have emerged from the students open-ended questions, such as including business plan competitions with rewards, mentoring and internship opportunities.

## 6. Conclusions

We have postulated that the criteria of an entrepreneurial university would be related to an increased entrepreneurial activity.

During our assessment of the University of Oradea Faculty of Economics students we have uncovered some interesting results.

Firstly there are some aspects of the university that are in line with the scope of the entrepreneurial university. These are a high level of entrepreneurial intent, some entrepreneurial activity, interest in education, demonstrated by the fact that almost half of the students seek knowledge in trainings and courses outside the formal curriculum and providing, to some extent, models of entrepreneurship and even mentors.

There is still much improvement to be had.

Firstly the students benefit only marginally from experiences that would develop their entrepreneurial skills and spirit, such as internship, mentoring, business competitions, trainings from companies and simulations. These are all areas that could and should be improved with relatively low costs and a high impact.

Students crave a more practical approach, as evident from their responses and attitudes. This could be achieved by a greater involvement of active individuals in the business environment. More partnerships and projects are requested by the students.

We conclude that the investigated university has the bases required to evolve into a generator of entrepreneurial activity, however some institutional changes are still required in order to truly become one.

## 7. Acknowledgement

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# Assessing Mentoring Activities in the Management of Knowledge Based Organizations

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## Abstract

*Knowledge based organizations are aware of the benefits of mentoring activities. Mentors, mentees and the organization are the main actors of a mentoring programme, playing an important role in developing organizational creativity and innovation. In order to assess a mentoring programme one needs a strategy and specific instruments.*

*This paper aims to present some assessment methods and instruments that can apply to mentoring activities. There will be discussed the evaluation of mentors, the mentor-mentee relationship, the impact of mentoring on mentee and mentor's performances, the success in achieving the mentoring program goals and the overall success of the programme. The paper is a result of the research “Mentoring – a component of the human resources management”, done by the undersigned as a postdoctoral fellow at the Romanian Academy, Iași Branch, in the project SOP HRD/159/1.5/S/13367.*

**Key words:** mentoring programmes, assessing mentoring activities, mentor-mentee relationship

**J.E.L. Classification:** M50

## 1. Introduction

When developing a mentoring programme, organizations have to think about the objectives of the programme, the outcomes they wish to achieve and how they will evaluate the efficiency of the program. This information has to be set clearly from the beginning, so that all actors involved in mentoring activities (mentors, mentees and mentoring programme staff), know their role and what is expected from them.

Formal mentoring programmes developed in organizations have a programme manager that follows certain steps in implementing the programme:

- Projecting the mentoring programme;
- Recruiting and selecting mentors and mentees;
- Organizing the mentoring programme;
- Implementing the mentoring programme;
- Feedback.

The fourth step, implementing the mentoring programme, includes developing, monitoring and evaluating the mentoring activities. In this paper we will focus on evaluation methods and instruments that are suitable for mentoring activities.

## 2. Evaluation process

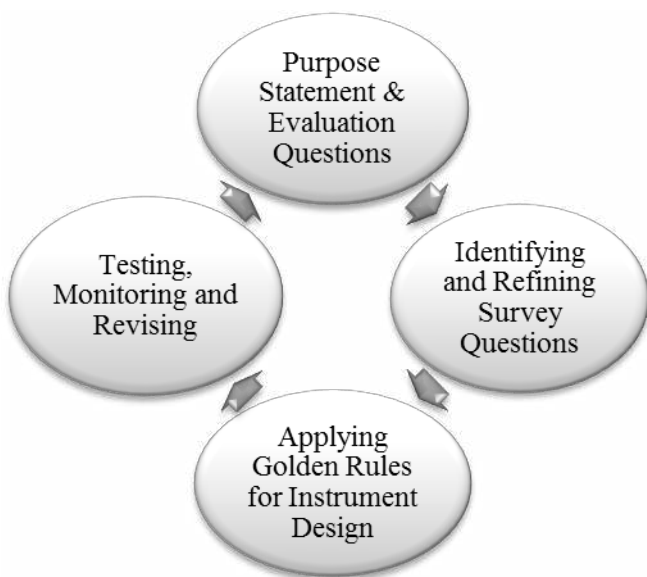
Nowadays there are many resources available on how to design an evaluation process. „The process of developing a comprehensive evaluation plan that meets the four evaluation standards of integrity, feasibility, usability and propriety (Joint Committee on Standards for Educational Evaluation, 1994) can be quite complex and tedious. In many ways, this process is an art form that relies heavily on the evaluator's intuition, perception and ability to assess what will best address the concerns of those involved in the evaluation (i.e., sponsors and stakeholders) and provide the outcome of great use and interest.”[1]

„One might think that instrument design would be among the easiest parts of evaluation planning. Yet even seasoned educators and evaluators routinely are surprised or disappointed by the data their carefully considered instruments yield.” [2]

**Michael W. Duttweiler**, Assistant Director for Program Development and

Accountability, Cornell University Cooperative Extension and **Monica Hargraves**, Manager of Evaluation for Extension and Outreach, Cornell University Office for Research on Evaluation, have defined a four phases in the design and revision process [1]:

- a) Developing a Precise Evaluation Purpose Statement and Evaluation Questions
- b) Identifying and Refining Survey Questions
- c) Applying Golden Rules for Instrument Design
- d) Testing, Monitoring and Revising



Source: Extension Evaluation Community and Practice [2]

Basically the success of the evaluation process resides in the very first steps of designing the mentoring activity. When considering developing a mentoring program, one must clearly define the aim and objectives to follow, so that the evaluation process will be done accordingly. „The essence ... is that you must know precisely what questions you are trying *to answer* before developing the questions you need *to ask*”. [2]

When implementing a mentoring program in an organization there is a mentoring program managers that gathers a team of 4-6 members and organizes and plans the whole program. The program implies also training of the mentors regarding the specific tasks and roles, the objectives set for the mentoring

program and how to meet them. The aim of the training is to prepare mentors for their activity and to give them suitable weapons to use in the relationship with the mentee - instruments and knowledge that give them competitive advantage in front their mentee. Even if the mentor is an experiences person in terms of competences and performances in his job, there is not compulsory to have knowledge on how to manage a mentoring relationship. Mentoring is a difficult task, a commitment to developing another person; it is an investment of time, energy and knowledge transfer. Mentors must guide and support mentees without obvious help, they must be the person in the shadows that show the right path, they must show the mentee where to look at buy not reveal what to see.

### 3. Assessing mentoring activities

The assessment process usually is defined at the beginning of the implementation stage. It needs to be carefully thought in terms of what is to be evaluated, who will be assessed, when the evaluation process will start and what kind of evaluation is needed.

When we think about what is to be evaluated, regarding mentoring activities, we have to consider the programme set of objectives. The objectives set the targets of the programme and define the desired outcome. This information will be the bases of the evaluation process.

Evaluations can be done during the mentoring activities, the implementation phase and at the end of the activities aiming the satisfaction of the actors involved. In the next paragraph there is an example of evaluation at the end of the mentoring program and how to measure the positive or negative impact of the activity on the mentees. The example is from a survey based research done by the undersigned on 146 persons from Iași, Romania, that aimed to determine the need of mentoring of employees. The target group was formed by persons that were employed.

In questionnaire the respondents were asked if they had ever had a mentor and if they currently wish to have a mentor. The distribution of answers received based on the respondents age can be seen in table 1.

One can note that only 66 out of 146 of total respondents, representing 45%, had a mentor. And from these 66 that were guided by a mentor, 7 do not wish to repeat this experience. The distribution of those that currently do not wish to have a mentor is: 3 persons with ages over 41years old and 4 persons with aged between 26 and 40.

The result can be interpreted as follows: the respondents with ages over 41 are persons with expertise and they do not feel the need for guidance as themselves can be mentors for others. The rejection of the young respondents, with ages between 26 and 40, to have a mentor raises questions - they might have had negative experiences.

This example shows that not all mentoring activities succeed and the evaluation is compulsory for correcting flaws and improving future actions.

#### 4. Assessment methods and instruments

Assessing a mentoring programme implemented in an organization is a complex process. It implies creating instruments for all actors involved in the mentoring activity (mentors and mentees) and for stakeholders. The stakeholders can be colleagues of the mentee, department managers, clients and suppliers. Usually it is useful to have the opinion of the persons that interact with the mentee to see if there are changes in his/hers behaviour, competences and performance.

Instruments and methods that are suitable for assessing mentoring activities can be divided in two categories by the type of data they provide:

- Qualitative data through direct observation, observation sheet, interviews, focus groups, mentor’s journal, self-evaluation sheet for mentors, feedback sheet for mentors;
- Quantitative data from satisfaction questionnaires addressed to mentors, mentees and stakeholders. Some quantitative data can be extracted from self-evaluation sheets and feedback sheets also.

*Direct observation.* This method is usually useful in the implementation period, when mentoring program staff monitors the mentor-mentee activity. By observing the behaviour and attitudes during a meeting

Table 1. Distribution of respondents that currently desire to have a mentor and age distribution

Age of respondents	Respondents that had a mentor	Out of which currently desire a mentor	Out of which currently DO NOT desire a mentor
18-25 years	7	7	0
26-40 years	37	33	4
41-50 years	14	12	2
>50 years	8	7	1
Total	66	59	7

between mentor and mentee, one can determine if the relationship is productive, if the mentor respects the objectives set for the mentoring activity with his/hers mentee, etc. All this determine if the pairing process was successful or not, and can highlight new rules and new ideas for the future programs.

*Observation sheet* is the instrument used during direct observation that allows evaluators to create a database of observations and remarks structured in different categories.

*Interviews.* Evaluators can use structured or semi-structured interviews to analyse the mentor-mentee relationship. For mentoring activities it is recommended to have individual in depth interviews with mentors and mentees because they give the evaluators a chance to see for themselves the truth about the success and impact of the mentoring activity for each actor involved.

*Focus groups* are recommended to be used to find out if the mentoring activity has an impact on the organization. The target group for these focus groups can be department managers, direct managers and colleagues of mentors and mentees. The focus will be on the change of behaviour, competences and performances. Focus groups will be organized separately for mentors and mentees.

*Mentor’s journal* is a document handed out to mentors at the beginning of the mentoring activity and is their responsibility to note every meeting organized with the mentee. This is an elaborated instrument that allow evaluators see the progress of the mentor-mentee relationship, how the contact was maintained, how often did they meet, what kind of activities had been done during the mentoring period, what activities had the best result, and so on.

*Self-evaluation sheet for mentors* is an instrument that evaluators use to find out the perspective of the mentor on his relationship with the mentee. It is usually filled in at the end of the mentoring activity.

*Feedback sheet for mentors* is a document addressed to mentees and aims to find out their opinion about the their mentor, searching answers to questions like: Was your mentor involved in the relationship?, How many activities did the mentor propose?, How many activities did you propose?, Was the mentor open and gave you advice?, Did the mentor support you?, Did the mentor guided you to find out answers? Did the mentor stick to the objectives you set out together at the beginning of the relationship? and so on. All this questions will help evaluators gain a perspective on the involvement of the mentor in the activity.

*Questionnaires* can be addressed to mentors, mentees, mentoring program manager and stakeholders. For each category it should focus on different aspects. Satisfaction questionnaires for the persons involved in the mentoring activities (meaning mentors and mentees) aims at finding out if the mentoring worked, if the mentee was satisfied with the mentor, if the mentor invested his knowledge and interest in the relationship. The satisfaction questionnaire addressed to mentoring program managers focus on the overall program, its objectives and the reach or not of the goals set. The satisfaction questionnaire addressed to stakeholders aims to find out if there are improvements in the mentees performance and if the mentoring activity was an incentive for the mentee to further develop.

Some of these instruments were developed in FORMULA project, a project on mentoring that developed training materials for mentors and facilitators (trainers of mentors). Samples can be found on [www.formulamentoring.eu](http://www.formulamentoring.eu), on the Facilitator's Handbook and Monitoring, Evaluation and Quality Assurance Plan. FORMULA is a Multilateral Grundtvig Project funded by European Commission through Lifelong Learning Program. The project gathered the expertise on mentoring from 5 European partners from Scotland, Czech Republic, Romania, Sweden and Spain. [3]

## 5. Advice from experts

Michael Garringer [4], editor of the Forum on the Chronicle of Evidence-Based Mentoring website, wrote an article regarding evaluation of mentoring programmes that gathers advice and tips from four experts: **David DuBois** – School of Public Health, University of Illinois at Chicago, **Carla Herrera** – Independent Evaluation Consultant, **Janet Forbush** – Independent Evaluation Consultant, **Jean Rhodes** – Director, The Center for Evidence-Based Mentoring, University of Massachusetts-Boston. In the following paragraphs we will present the tips that we consider the most useful in assessing mentoring activities at organizational level:

- **Planning is critical** – Most mistakes with evaluations happen before any of the data are collected. Focus on process evaluation if your program is relatively new; you can always examine outcomes once your program has worked out the kinks and is operating at peak efficiency. Be sure you have adequate resources and stakeholder buy-in to implement the evaluation. (David DuBois)

- **Give voice to all of your matches, not just those that succeed** – Some of the most valuable data you can get are from those matches that don't work as you had hoped, and the strongest evaluations include all perspectives. (Carla Herrera)

- **Use reliable, valid data collection instruments** - A homegrown survey is unlikely to give you accurate or valid results. Try and identify data collection instruments that have been used in previous research on a similar population to minimize the risk that your findings are simply random. (David DuBois)

- **Do not be afraid of evaluation results...**it isn't a 'gotcha game' but rather an essential part of providing a window on what is working in your program along with useful insight on where adjustments/modifications need to be introduced. (Janet Forbush)

- **Assess the Underlying Processes of Mentoring.** Qualitative research, which provides in-depth descriptions of how relationships develop and why they sometimes fail, as well as longitudinal studies of outcomes, have a vital role to play in theory development. (Jean Rhodes)

- *Be ready and willing to invest in program improvements based on what you find.* (Carla Herrera)

## 6. Conclusions

The evaluation process is closely related to the organization's strategies and long term objectives. One must clearly define the purpose of evaluation and design instruments accordingly.

No all mentoring activities are successful, as shown in the results of the survey based research presented above; therefore the assessment process is imperative. We consider the eight instruments and methods presented in this paper to be the most suitable and efficient ones in the evaluation process of mentoring activities.

Evaluation results show the impact of the mentoring activity on the beneficiaries, give feedback on what went well and what needs improvement. The results are used in projecting, organizing and implementing future programs.

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## Entrepreneurship and Small Business in Tourism

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### Abstract

*The importance of entrepreneurship in economic and social life is undeniable, representing a source of innovation and change, and thus stimulating economic growth. Tourism entrepreneurship can provide unexpected and salutary development opportunities in a region or a country, and the SMEs themselves represent the true engine of entrepreneurship.*

**Keywords:** Entrepreneurship, tourism, SME, hospitality, family business

**J.E.L. Classification:** L26

### 1. Introduction

One of the main agents of change is the entrepreneur who, through a combination of factors such as creativity, perception and lucky confluence of events, constantly identifies opportunities as they arise and helps to create organizations to pursue them.[1]

Economic growth depends on entrepreneurs to start new businesses and introduce new products and services. An entrepreneur is an entrepreneur who assumes risks, focusing on the idea of being rewarded by his successful business. Though, he is prepared to limit the risk of failures.[2]

### 2. Family business and entrepreneurship

The entrepreneur according to Pride, Hughes, Kapoor [3] is the person who risks time, efforts and money to launch and run a business. According to Ninemeier and Hayes [4] the entrepreneur is a person who assumes the risk of owning and running a business in return for financial rewards it can bring. The

entrepreneur according to Lipsey and Chrystal [5] is a person that innovates, that is, assumes the risk of introducing both new products and new ways to make old products.

Entrepreneurship in tourism will flourish in an environment where social, economic and political conditions can serve as a motivational force, but such activity must be backed by the local community and the governing bodies.[6]

Tourism is fairly new, quite chaotic and unregulated enough yet to be a very attractive field for entrepreneurs.[7]

In the United States, it has been estimated that family businesses generate 46-60% of gross domestic product.[8] In Europe, approximately 70%-80% of the businesses are family businesses and about 40%-50% of the European employment takes place within family businesses. In most European countries the business of the self-employed entrepreneurs (e.g. companies owned by one person, employing family members or outsiders) are considered to be family businesses.[9]

Available data also show that some of the largest European companies are family businesses. In Luxembourg, Norway or Sweden, research shows that about 30% of the largest companies are family businesses. In Belgium, this share is even higher (around 50%).[10]

*Table No. 1. The main differences between the family businesses and businesses that are not family business*

	Family business	Business that is not family business
Main components of the company	Family	Owners / managers
Main objective	Economic and non-economic (stability)	Economic (fast profits/



	and family income on long term, as well as satisfaction for the family)	economic growth)
Competitive strategy	Quality, reputation, long term relationships	Price
Assets	Financial, social, cultural	Financial
Climate within the company	Family warmth, trust, cohesion, implication, commitment, enthusiasm, lack of formality	Orientation towards business, formality, contract agreements, official character
Business orientation	Satisfaction of the interested parties (mainly family, customers, employees, local community)	Satisfaction of the owners/ share holders
Management style	Based on values, emotional, objectives alignment	Based on figures, sensible, control mechanisms
Profit allotment	Reinvestment in company	Distribution among owners/share holders

Source: Mandl I.

Family businesses are often vital to the experience and customer satisfaction and at the same time, for the development of tourist destinations and local communities.[11]

Family businesses in tourism have a substantial portion of the family fortune, filed within the company, and the lack of complete knowledge of management helps them in difficult business climate, in terms of securing funding and to enter the market.[12]

The experience of the European Union as well as that of the other countries of Central and Eastern Europe, demonstrates that SMEs are an essential factor in promoting regional and local socio-economic development.[13]

The family business sector is dominated by SMEs, and particularly micro-undertakings with fewer than 10 employees. Thus the majority of SMEs on the European continent-which constitute the backbone of the European economy-represent the family businesses, while also most family businesses are SMEs. At the same time, there are also large family enterprises, internationally active.[14]

According to Wanhill one third of SMEs are successful, one-third are at the limit of survival in a fight as a double-edged sword, and the remaining should not be in business. Tourism SMEs often have severe limitations in terms of marketing and the marketing of products and services, quality, price policy, cost control and the ability to re-adjust and adapt to existing or potential situations on the market.[15]

### 3. Tourism entrepreneurship in the world

Tourism has the potential to create and worsen the unequal regional development through the different integration of certain territories on the global and local markets. The existing distortions in the post-communist economies have tended to concentrate the activity in urban areas from the favored regions and last but not least in tourism.[16]

Russell and Faulkner have found that tourism entrepreneurs have an important role to play in the development of tourist destinations (when conditions are "chaotic" and "unregulated"). However, as can be found in their study of the surfers paradise Gold Coast in Australia, individual entrepreneur's role changes with the scale and complexity of the industry, the two researchers noted a tendency to replace the individual entrepreneur with corporate entrepreneurship, which will lead to a dramatic decrease of the first.[17]

An international comparison of national performance in tourism stems from a research study published by the World Economic Forum (WEF) in the report on the competitiveness of the tourism sector and travel in 2007. Table 1.8. considers these comparisons in more detail, using three main indicators-legal framework, business environment, and human, cultural and natural resources.[18]

*Table No. 2. Comparisons of competitiveness in the tourism sector and travel according to key indicators for selected countries*

Selected country	Legal framework	Infrastructure & business environment	Human , cultural & natural resources
Bulgaria	66	56	41
Croatia	58	40	11

Czek Republic	40	37	22
Hungary	26	51	51
<b>Romania</b>	<b>87</b>	<b>74</b>	<b>71</b>
Ukraine	76	73	89

Source: Master Plan for National Tourism Development 2007-2026

This ranking system comprises of 124 countries and positions each country compared to all the others, in terms of competitiveness in the tourism sector and travel. That is, each country is given a position in the ranking from 1 to 124, according to the criteria set out by the WEF methodology. Thus, Romania is ranked 76 out of 124, just before Ukraine, but after Bulgaria and the other countries selected.

Table No. 3. Overall ranking of competitiveness for selected countries

Selected country	Ranking
Czech Republic	35
Croatia	38
Hungary	40
Bulgaria	54
<b>Romania</b>	<b>76</b>
Ukraine	78

Source: Master Plan for National Tourism Development 2007-2026

This comparison shows the weak competitive performance of Romania in comparison with the neighboring countries, this being on the last position according to the legal framework and business environment and on the penultimate position according to human/cultural/natural resources.

Table No. 4. Characteristics of entrepreneurial tourist destinations

From the point of view:	Characteristics:
Economic	Openess, fluidity, without barriers at business launch
Of social structure	Dynamism, mobility, acceptance of the outsiders
Of business	Competition,

	inexistence of a dominant employer
Financial	Cooperating banks, access to capital
Of labour	Qualification, existence of the professionals in the field
Of government	Help offered to small businesses
Of innovation	University and corporate research centers
Mass-media	Attention paid to entrepreneurs and small businesses
Of working places	New businesses set-up and development of small businesses
Of facilities	Life quality, culture, recreation

Source: adapted according to Kotler P., Hamlin M.A., Rein I., Haider D.H [19]

There were also observed some negative implications. Harrison and Leitch (1996), studying small and medium enterprises in Northern Ireland, have found that by getting employed in their own company entrepreneurs might not make a real contribution, on a long-term basis to really help to local development. In some economies, self-employment simply mask the phenomenon of underemployment or unemployment. Especially in poor countries, in the developing world, there are people marginalized and forced to offer cheaply their services to earn a living.[20]

Romanian legislation defines family enterprises as businesses created at the initiative of an individual and comprising members of his family (husband, wife, children over 16 years, and their relatives, including distant relatives of the four level of kinship). It is one of the few definitions of family business operating the term "family".[21]

According to the Global Entrepreneurship Monitor Report GEM 2010, Romania, together with other countries such as Brazil, Chile, China, Ecuador, Mexico, Russia, Taiwan, Turkey and Hungary are among the states with an economy driven by efficiency and less by innovation.[22]

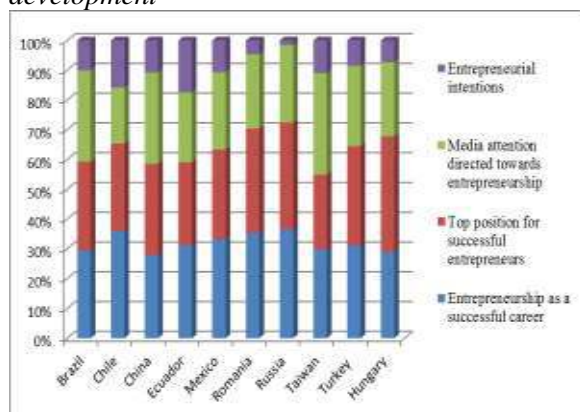
Table No. 5. Entrepreneurial attitudes and perceptions in the GEM in 2010 according to the phase of economic development (economy driven by efficiency) %

Country	Entrepreneurship as successful career	Top position for successful entrepreneurs	Mass-media attention directed towards entrepreneurship	Entrepreneurial intentions
Brazil	78,0	79,0	81,1	26,5
Chile	87,4	71,2	45,7	38,3
China	70,0	76,9	77,0	26,9
Ecuador	83,1	74,0	62,6	46,3
Mexico	69,4	62,8	54,0	22,3
Romania	66,5	65,5	46,9	8,6
Rusia	65,4	63,7	46,6	2,6
Taiwan	68,4	57,5	78,2	25,1
Turkey	71,2	76,4	61,7	19,4
Hungary	55,0	73,7	47,4	13,8

Source: Kelley D., Bosma N., Amorós J.E.

Comparing data obtained for Romania (8.6%) with those of other countries in this list, we can see that the intentions to launch a business are quite low, only Russia is below the level of our country (2.6 percent). The Romanians interested in entrepreneurship as a successful career (66.5 percent) are however close enough to the existing average of 71,33%.

Figure No. 1. Entrepreneurial attitudes and perceptions in the GEM countries in 2010 according to the phase of economic development



Source: author's processing after your Global Entrepreneurship Monitor (GEM)

#### 4. Conclusion

Entrepreneurship requires a specific management, with its own concepts, goals

and methods. It is based on risk management rather than its minimizing, on its orientation towards the opportunities not resources, on the action and not on analysis, on an informal, flexible structure of leadership and not on a formal one. The entrepreneur is the one who can give "a human face" to a company.

Studies have shown that entrepreneurship can occur in both small businesses and corporations. Entrepreneurs need to introduce innovations on the market, but innovation is much more easily achieved at the level of SMEs, which can be a vehicle for entrepreneurs. Such an increase in the number of entrepreneurs will lead to economic growth.

In tourism in order to compete with big companies from the industry, the entrepreneur must be able to handle a wide variety of issues and situations, and to have a long-term vision. Tourism entrepreneurs can work in groups and organizations, trying to uncover opportunities and innovate in order to survive, and most importantly, to grow.

Tourism, which represents a significant component of the hospitality industry, has become the largest industry in the world and thus creates opportunities for entrepreneurship and offer jobs globally.

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## Romanian Companies Restructuring During the Crisis

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### Abstract

*The worldwide economic crisis which started at the end of 2008 often had irreversible effects in the Romanian economy. Thousands of companies confronted themselves with a drastic reduction of the demand for their product or services, the crucial lack of cash and they basically found themselves in the impossibility of paying their debts on time. All these led to insolvency and even to the bankruptcy of many Romanian companies.*

**Keywords:** crisis, corporate restructuring, insolvency.

**J.E.L. classification:** M10

### 1. Introduction

The corporate restructuring is the process through which the company as well as its activities are transformed. It can produce profound changes of the business itself by closing or merging some activities or organization structures, which always means making employees dismissal.

The corporate restructuring may appear as a result of a company takeover by other owners, through: the acquisition of the majority of the block of shares, the acquisition of the company by the employees, a hostile takeover or a merger which has as consequence the transformation of the company into a subsidiary of the corporation which has the control.

The corporate restructuring should not be confused with judicial reorganization, which is the procedure applied to the debtor company in order to cover his debts according to the account receivable payment programme and which is settled by the law nr.85/2006 about insolvency.

This survey is meant to show which are

the main measures that the management of a company should take in order to avoid insolvency and most of all bankruptcy.

### 2. How to avoid insolvency?

A study published by the Romanian National Bank in June 2014 [1] shows that the main problems of the Romanian companies during October 2013 - March 2014 in descending order of importance are: the high level of taxation (81%), the competition (46%) and the lack of demand (46%) whereas access to funding is difficult for approximately 19% of the companies.

The main financing sources for the companies during October 2013 - March 2014 according to the aforementioned survey were: the reinvestment of the profit or the selling of assets (44% of the respondents). Accessing bank financing remains modest and it is placed at a lower level compared to the preceding survey (18% of the companies resorted to at least one bank product during October 2013 -March 2014 compared to 21% between April - September 2013). The most difficult obstacles for the companies to access financial resources were the level of interests and bank charges which was much too high, the demands concerning the value and the type of the guarantee, the clauses of the contract and bureaucracy, according to the survey of the National Bank of Romania.

The lower demand and implicitly of the market distribution came as a surprise for many Romanian companies with overcapacities, as well as heavy debts to the banks. Consequently, many companies were forced to close their activity. According to the chart below the number of the active companies from the Romanian economy decreased constantly during 2008-2011 and increased slightly in 2012 [2].

*Table 1. Active economic operators of national economy, in 2008-2012*

<b>Enterprises</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Agricultural holdings	13,602	15,112	15,240	15,152	16,080
Enterprises from industry, construction, trade and other services	534,525	519,441	470,080	430,608	449,482
Financial and insurance companies	7,001	7,283	6,636	6,411	6,780
<b>TOTAL</b>	<b>555,128</b>	<b>541,836</b>	<b>491,956</b>	<b>452,171</b>	<b>472,342</b>

Source: Statistical Yearbook of Romania 2012, 2013; National Institute of Statistics

At the same time the number of new and active economic operators from the

Romanian economy followed the same descending trend during 2008 and 2011.

*Table 2. New and active economic operators from industry, construction, trade and other services, by legal type, in 2008-2012*

<b>Enterprises</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Autonomous bodies	2	1	0	0	0
Stock companies	221	177	199	105	196
Limited liability companies	80,644	56,525	48,396	48,268	66,414
Other types of non-co-operative companies	259	297	243	229	263
Co-operative companies	30	20	28	13	20
<b>TOTAL</b>	<b>81,156</b>	<b>57,020</b>	<b>48,866</b>	<b>48,615</b>	<b>66,893</b>

Source: Statistical Yearbook of Romania 2012, 2013; National Institute of Statistics

In these conditions, the companies found themselves forced to reorganize their activity through internal managerial measures, or to enter into insolvency. The cut down of the expenses has become the main objective for any manager.

The big companies can reorganize their activity into profit centers. Practically this means that they have to make a strategic analysis of the return of each functional unit of the company and to keep those that are profitable. The redundant and non profitable departments, equipment, means of transport and office places should be rented or sold. The sale of these fixed assets will surely be done respecting the market price, which is much lower compared to the price at the moment of the acquisition, but they will bring the company the necessary cash-flow to pay the debts.

For the surplus assets, for which the company does not find clients, they could keep it until they find a buyer. Conserving fixed capital does not absolve the company of paying the scheduled payments, if that capital asset was acquired with a credit from the bank, but into the profit and loss account will register only the depreciation expenses and the insurance rates expenses.

Another measure that should be taken is

the outsourcing of some services by specialized companies, if by doing this the company can get savings. Some eloquent examples are: the outsourcing of the surveillance services, of the accounting and financial activities, of the marketing and advertising activities, of the maintenance and repairs of the equipment and of the means of transport.

In addition, the companies should analyse very well their product portfolio. Generally the companies that make more products may have some that are non profitable. This means that their selling price does not cover total production cost, but they are kept in the portfolio for other reasons, such as: image, tradition, big demand on the market etc. The losses incurred with the sale of these products must be covered by the sale of other profitable ones. The role of the managers is to identify these products and to find solutions to make them rentable or to take them out of manufacturing.

Last but not least, the reduction expenses measures have to include the company's personnel. Restructuring the employees does not mean only their dismissal, but also other measures from the Romanian Work Code [3]: the reduction of the working programme from 5 to 4 days a week which has as

consequence the reduction of the salary, the elimination of the pay rises and of the bonuses, the elimination of the lunch vouchers and of other perks, holidays without pay, the reduction of the basic salary and only after all these the dismissal of the personnel. All these measures must be taken after a carefully analysis of the company personnel, because those who remain will take the attributions of those dismissed. In the same time, they also must identify the key employees ( e.g. the chief of the IT department, the chief of the financial analysis department) who will not be affected by the salary reductions. Furthermore, they should have supplementary stimulations according to their accomplishments. Another measure that should aim at remaining employees is introducing an incentive pay system, depending on individual performance. For example, for the employees in the sales department – basic salary plus percentage rate from the sales, if they accomplished the monthly target. For the drivers - the basic salary plus a bonus on km. For the directly productive workers - payment per direct labour hours .

All these measures are meant to reduce the company’s expenses and to ensure a plus for the financial resources for the financing of its activity and the payment of the debts.

In addition, the companies should improve the account receivables collection, that means the reduction of the medium term of cashing the invoices. They should also avoid the risk of a failure to pay. Although the economic crisis in Romania caused a crucial lack of cash determined by the fact that the banks make more difficult the credit conditions, however the companies have a series of measures and instruments at their disposal in order to hurry the collection of the bills from the clients. The most usual measures taken are:

- To stipulate in the contract a discount for the cash payment and gradually of a smaller discount for the payment before the end of the contract;
- Monthly promotions, valid only for the cash clients;
- To give their own sales employees a supplementary bonus for the collection of the bills on the spot or before the agreed terms;
- Discounting;

- Factoring;
- The insurance of the sales and implicitly of the non-payment risk through a specialized company;
- The collaboration with a debts recovery company;

If through these internal measures the company fails to secure cash-flow to pay debts, the shareholders may use other external methods, such as:

- merger or consolidation with another company;
- sale of shares to another company;
- sale of assets to another company.

Through the merger, the company in difficulty is embedded into another company. The acquiring company retains the name and identity and take over all the assets and liabilities of the acquired company, who will stop its activity.

Through consolidation, the company in difficulty joined with another company to form a new company, who will take over the assets and liabilities of the first two, which will stop their activities.

The sale of shares to another company is a strategic decision that can be take by the shareholders of the company in difficulty and this can be done either by selling small blocks of shares, either through a tender offer.

The sale of assets to another company is another strategic decision that can be take by the shareholders of the company in difficulty. The sale of assets can be done to another company either in the same sector, or in complementary sectors, or even in different sectors of activity.

The reasons for which a company in difficulty may become attractive to another company, include:

- Increasing of operating revenues after takeover;
- Increasing of cash flow;
- Increasing the market value of the company results after sale;
- Acquire strategic advantages: taking company’s customers, taking trademarks and brands, taking modern equipment;
- Reducing competition;

- Cutting costs.

Last but not least the companies should negotiate with their creditors (the banks, the state, the employees, the suppliers) the rescheduling of the due debts, so that their payment can be possible.

### **3. Conclusions**

As seen so far, the managers as well as the shareholders of the companies have at their disposal, even during crisis conditions, a series of instruments and measures that can be adopted in order to restructure the companies. Their success depends on the way they manage to put them in practice.

In case of the failure of all these measures, the creditors can demand the insolvency of the firm.

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# The Role of Transformational Leadership in Knowledge-Based Organizations

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## Abstract

*The evolution of leadership throughout the 21st century brings out the question of leader's effectiveness with respect to global knowledge. In particular, leaders play a key role to facilitate the process of innovation and organizational development. Transformational leaders must have an influential role in helping organizations and cope with the challenges they face from expanding their knowledge base. With this in mind, a revision of the existing literature on the field has been done, which underlines that the need for knowledge of how to lead these transformed organizations has increased. Based on literature review and previous work, this paper's aim is to investigate the influence of transformational leadership on knowledge-based organizations. This study shows that transformational leadership is an important determinant of organizational knowledge. Also, using transformational leadership in knowledge-based organizations, enhances services efficiency, the relationship with customers, and creates a sense of responsibility for change.*

**Keywords:** transformational leadership, leaders, knowledge-based organizations

**JEL classification:** M11, M12

## 1. Introduction

The evolution of society shapes a knowledge era in which in which knowledge and ideas are the main source of economic growth. This is why organizations must evolve and supervise leaders in the field. The above-listed items contribute to the development of positive effects of the organizations, the opportunity to learn from each other, and make

the most of new ideas. The knowledge influences the way activities are planned in an organization. Many companies have embraced the idea that in order to operate effectively in today's economy, it is necessary to become a knowledge-based organization. But few really understand what it means and what changes are needed for such transformation. An organization is, by definition, based on knowledge if goods or services are based on knowledge. But products and services are just what is visible and tangible to customers - the tip of the iceberg - the rest is hidden in so-called invisible assets of the organization - the knowledge of what, how and why.

## 2. Transformational leadership (TL)

James MacGregor Burns [1] has developed the concept of "transformational leadership" through his descriptive research about political leaders. Seven years later, Bernard M. Bass [2] has included the term on an organizational level in order to describe the setting and the encouragement process of employees in achieving the company's objectives. Recent research has approached the concept of transformational leadership from a more complex perspective, defining it as a process which has a profound and remarkable effect on subordinates, inspiring them to focus more on the well being of the organization and less on satisfying personal interests [3]. This approach focuses more on intrinsic motivation and aims to outline a general vision shared across the team by instilling pride, respect and trust among subordinates. The main characteristics of transformational leadership are presented in Table nr.1 that is my own creation after a thorough review of the international literature.

Table nr.1. TL's characteristics

Level	Particularities
Communication	• requires assuming responsibility for

	<ul style="list-style-type: none"> <li>failed tasks by subordinates;</li> <li>offers a high degree of optimism , energy and flexibility;</li> <li>aimed at a strong outward orientation and responsiveness to change;</li> <li>provides support in achieving the goals by giving feedback and prasing initiatives;</li> <li>uses charisma as a starting point in building authority.</li> </ul>
Abilities	<ul style="list-style-type: none"> <li>contributes to the development of employees' skills and competencies by creating a learning environment;</li> <li>continues moving towards business efficiency and improves the relationship between leaders and followers;</li> <li>supports and encourages subordinates to work on the personal and professional development.</li> </ul>
General traits	<ul style="list-style-type: none"> <li>is a role model for subordinates, motivating and building a vision;</li> <li>involves subordinates in the decision making process;</li> <li>supports self help behaviors, gets involved in completion of subordinates' tasks when the workload is too high.</li> </ul>
Productivity	<ul style="list-style-type: none"> <li>is actively involved in the organization's actions;</li> <li>aimed at preparing subordinates for the future changes;</li> <li>encourages collaboratio, knowledge and information exchange between employees.</li> </ul>

Bernard M. Bass described transformational leadership as an unequal development based on four components: idealized influence, inspirational motivation, intellectual stimulation and individualized consideration.

Idealized influence is the emotional component of transformational leadership that reflects the ability of leaders to make their subordinates feel confident, respectful and loyal [4] and define a behavioral pattern. It is aimed at a symbolic and persuasive communication of the mission and vision of the organization. This helps create an intense emotional attachment among the organization, the team and the individual needs of subordinates for affiliation and achievement and also an analysis of moral and ethical implications of decisions. If this component develops to a greater extent than the others, leaders become a role model that subordinates identify with a source of admiration, responsibility and optimism [5].

Studies in the literature [6] divided into two categories: idealized attributes and idealized

behaviors. The first category focuses on the system of values and beliefs of leaders, while the second one highlights the leader's visible behaviors. Discrepancies between these two, feed individual and internal conflicts which could negatively influence the working environment.

Inspirational Motivation is the component of transformational leadership that reflects the leader's ability to communicate in a clear and enticing way; the need for subordinates to continually evolve to fulfill the organization's mission. This characteristic is aimed at communicating in a clear and simplistic way what is the vision, the mission and objectives of the organization, by setting high performance standards, yet enticing, and by reducing resilience to change in the working environment. Developing this component, the transformational leader not only sets benchmarks but also shows confidence in the ability of subordinates to live up to his expectations and achieve ambitious goals. Pre-established targets and the belief that they will lead to the improvement of the team and the organization, gives subordinates a sense of security and makes them more open and confident in what they can achieve.

As it can be observed, idealized influence and inspirational motivation both have a set of common elements: they are based on trust and optimism, promote a common vision and set an example to be followed. These components are visible especially when a leader shapes a possible future, by mentioning ways in which this future can be turned into reality and by becoming a role model for others [7]. But idealized influence is focused on affective elements, being responsible for ensuring the involvement of subordinates in achieving their goals while inspiring motivation is oriented more towards concrete issues, assuming the task of defining objectives and performance standards in an easy, exciting and understandable manner.

Intellectual stimulation describes the degree to which a leader encourages intelligence, rationality, logic, innovation and creativity in the organization. It stimulates critical thinking and supports subordinates' intentions to find new ways of approaching problems.

Transformational leaders, the ones stronger oriented towards intellectual stimulating than on the other components, offer challenging tasks and give subordinates freedom to define their own lines of action. The employees, are encouraged to ask questions, analyze things in perspective, to find new solutions to old issues and to identify effective ways of fulfilling their tasks. Risk-taking capacity development is stimulated along with organizational learning: every problem, every contingency is seen as a learning opportunity.

Individualized consideration is that specific component of transformational leadership which highlights the leader's ability to pay attention to personal and professional needs of each team member. It focuses on developing coaching and mentoring programs, granting continuous feedback and connecting individual needs with the objectives and strategies of the organization. Transformational leaders have a high level of individualized consideration, are empathetic and good listeners, they interact with each team member, empower, encourage and facilitate the professional development of subordinates.

Bass's model is acknowledged and the most used internationally, Podsakoff [8] presented transformational leadership as having six coordinates: vision development, labor support, setting high standards, stimulating creative thinking of subordinates and acting as a role model.

The components of transformational leadership are frequently measured by Multifactor Leadership Questionnaire. It contains twenty items, built on a Likert scale in 5 steps, which are distributed in equal numbers for each component. The exception is idealized influence which were assigned 8 items instead of 4; they are split evenly in two categories, namely: idealized attributes and idealized behavior.

### **3. Knowledge-based organizations**

Traditional factors of production - land, labor and capital - have not disappeared. But they have become secondary. Knowledge is the only resource really relevant today; mankind is irreversibly framed in a technological society

which is defined as a knowledge society and at the same time, as an organizational society [9].

Unlike labor, land and capital, knowledge is an asset that is measured on the extent of use. The more it is used, the more knowledge becomes more valuable, applicable and effective. Knowledge is considered to be one of the most important resources of the organizations that have a role in the transition from information economy to the one based on knowledge.

The concept of "knowledge-based organization" has its origins in the years 1984-1988, a period that recorded successive phases of crystallization. Holsapple [10] define knowledge-based organization as "a community of conceptual workers, interconnected by a computerized infrastructure."

Applying his vision, Drucker [11] describes the main features of information-based organizations as: professional dominant component, low intermediate levels of hierarchical management, coordination through non-authorative billing, ensured thorough norms, standards and rules of cooperation. One can find specific strategies that define the behavior of these organizations [12], namely:

- to represent in an inclusive and transparent manner knowledge accumulations of both explicit and implicit nature, accumulations that may exist either at individual or group level or on artificial supports;
- to be constantly concerned in expanding the knowledge-base by stimulating learning and organizational innovation and capitalizing on their results;
- to develop the capacity to transform in a smart way, taking into account possible opportunities, context and transforming available knowledge into concrete actions ;
- to acknowledge and assume their own ignorance.

In the XXIst century, transforming an organization into a competitive one, requires a particular attention given to knowledge management. Changes in information technology have offered data encoding possibilities which have a considerable impact on the cost of data communication, making it

increasingly lower, this fact resulting in increased transmission of knowledge.

Knowledge-based organizations are the intelligent collective actors of information society with an important role in its assertion to the knowledge society; belonging to the contemporary reality in both their professional management environment quality and also as the object of scientific research and strategic projects, marking the convergence of two phenomena that define the human nature - knowledge and the organization - into an emblematic social construction of ideas regarding collective responsibility, sustainable performance and intelligent action [13].

For proper operation of knowledge-based organizations which have a significant role in the processes encountered in the phrase "3 I": innovation (creating new knowledge), learning (assimilation of new knowledge) and partnership interactivity referring to knowledge.

A knowledge-based organization focuses on two interconnected processes that support the core activities, namely: *capitalize / efficient use of existing knowledge and generate new knowledge*, thereby aiming at:

- a) transfer of knowledge horizontally or vertically, so that any information / knowledge coming from a sector of the organization can be applied in activities taking place in the other sectors;
- b) transfer of knowledge over time, so that organization would benefit from previous experiences;
- c) collaboration between employees, inter- and intra- departmental, aimed to create knowledge;
- d) providing opportunities and incentives for experimentation and learning.

In terms of efficiency, managers and subordinates of successful organizations will be involved in the innovation and design process of a product, its removal from the market and improving the product's quality.

In relation with the economic environment, a knowledge-based organization, according to the triangle of sustainability, has the following components: competitiveness, eco-efficiency, and individual and organizational performance. Organizations that focus on knowledge are

institutionalized in certain aspects, namely: the foundation of knowledge is understood as the main resource of the organization's intellectual-intensive processes and is essential for the operation and achieving the goals of the organization.

#### **4. Aspects of the influence of transformational leadership on knowledge-based organizations**

In knowledge-based organizations, transformational leaders stimulate intelligence, introduce a new vision, and recognize the merits of subordinates [14].

Leaders who possess high idealized influence always have a great desire to get involved in activities at work, taking risks and, therefore, they become the most influential and effective managers [15]. Alternatively, these leaders involve subordinates in decision making process, give them autonomy and promote innovative behaviors through self-efficacy [16]. On the other hand, this kind of empowerment improves organizational performance [17]. Podsakoff et al. [18] conducted an exploratory study in 1539 which had a very interesting finding: the employees with more knowledge and experience are those who have more confidence in their leaders.

Leaders who possess a high inspirational motivation, influence subordinates to define their own vision and help them achieve better performance within the organization [19]. On the other hand, transformational leaders develop team spirit, enthusiasm, optimism, encourage and support subordinates.

Leaders which stimulate subordinates intellectually, encourage them to solve problems in new and different ways [20]. At the same time, these leaders stimulate employees' ability to analyze and solve organizational problems.

Another characteristic of transformational leaders, individualized consideration, supports subordinates in fulfilling their individual expectations [21]. Equally, through individual examination, leaders promote interpersonal relationships among subordinates, in order to avoid conflicts and ensure increased productivity within organizations. At work,

transformational leaders promote and encourage innovative behavior and quality [22]. However, Alimo - Metcalfe [23] argued that leadership skills can not predict organizational performance.

Transformational leaders in knowledge-based organizations contribute to obtaining the following results:

- introduction or extensive and intensive use of knowledge-based management;
- stimulating subordinates on all hierarchical level ;
- offering products / services that encompass a large volume of knowledge;
- developing intellectual capital of the organization;
- achieve competitive advantage by intensive harnessing of knowledge.

Transformational leaders generate different ways of thinking, adopt new opportunities or seek solutions to problems, generate exploratory thinking processes. They also contribute to intrinsic motivation, inspiring and stimulating the need to be better, which leads to creativity. They serve as role models and guides, leading to articulate a vision of joint innovation [24]. Transformational leaders promote organizational innovation [25]. On the other hand, in order to achieve their vision, transformational leaders encourage the use of technology, such as internet and intranet, and support subordinates to effectively learn to search for information [26]. In addition to this aspect, Crawford [27] found, in a study of 1,046 participants that transformational leader behaviors are positively correlated with documentation and knowledge creation.

## 5. Conclusions

To conclude, after studying the literature, it can be affirmed that transformational leadership contributes to the development of knowledge-based organizations on multiple levels such as: supports innovation and collaboration, encourages organizational learning, attracts human and social capital development and increases productivity. The presence of transformational leaders in knowledge-based organizations increases

efficiency and customer relations services and creates a sense of responsibility to subordinates towards the organization and changes.

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## Analysis of Leader’s Characteristics on Performance in the Knowledge-Based Organizations

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### Abstract

*Leadership is commonly known to determine the success or failure of an organization. This study examines the relationship between characteristics which define a leader and the performance of knowledge-based organizations. Current theories of leadership suggest that certain types of individuals are especially likely to succeed as leaders in certain organizations. As knowledge and information become the new sources of power in today's dynamic markets, organizations must cultivate a new form of entrepreneurial leader that can maximize companies' resources and opportunities. The leader must lend his vision, leadership style, strategy and imprint his personal set of skills to improve performance in the organizations. The results shape the profile of a successful leader, especially in knowledge-based organizations, and particularly in business environment.*

**Keywords:** knowledge-based organization, leader’s characteristics, performance

**JEL:** M11, M12

### 1. Introduction

Effective leadership is considered to be a combination of different traits and characteristics. Leaders are also influenced by the characteristics of the job position and organization. Studies have shown that leader's characteristics can exert considerable influence over the work climate and group learning [1]. Innovative new products and the speed they reach the market, are often regarded as keys to survival and success in today’s highly competitive environment. The knowledge-based view of the firm argues that an organization’s goal is to encourage the

effective implementation of individual knowledge and performance.

The theories in management literature [2] support the idea that a company, especially a knowledge-based one, should act as a mechanism which enables and coordinates the implementation of an individual’s knowledge toward a common desired goal.

The literature review presented in this paper is examined in three stages. First, studies of the links between leader’s characteristics and performance are discussed. Second, research into the knowledge-based organizations and its connection to performance is examined and, finally, studies combining the analysis of both knowledge-based organizations and leader’s characteristics are discussed.

This current study encompasses a synthesis of previous findings on leader’s characteristics and possible effects of leaders on performance in knowledge-based organizations. This analysis will be done using a thorough theoretical review which helped build a fundamental construct for defining leader's characteristics.

This study differs from previous research by implementing a more theoretical background, compared to the ones found in the international literature, and captures a more complete image of the direct effect of leader’s characteristics on performance in knowledge-based organizations.

### 2. Literature Review

#### 2.1. Leader characteristics and performance

Early studies on leadership focused on identifying the personality traits which characterized successful leaders [3], [4]. In today’s information society, the management of knowledge and innovation are key processes that enable us to create, exploit, renew and apply knowledge flows in new

ways. This helps create the essential abilities for improvement of organizational performance [5], [6]. The psychological profile of leaders could directly affect the performance of the organizations they are active in [7]. Trait theories assume that successful leaders are born and that they have certain innate qualities which distinguish them from non-leaders [8].

Research into leadership has gone through periods of skepticism, recent interest has focused on the importance of the leadership's role to the success of organizations. Leaders' effectiveness comes from four sources:

- (a) the level of power and influence possessed by the leader;
- (b) how the leader interacts with others;
- (c) the leaders' personal qualities; and
- (d) the situation in which the leader is asked to lead [9].

A leader was expected to play a different role than the roles enacted by other members in a group [10]. Hierarchical organizations depend on leaders in formal authoritative roles to coordinate actions to achieve organizational goals and results.

In recent years there has been a growing interest in the nature of character and character education. Many people today are familiar with the Character Counts!(sm) program of the Josephson Institute of Ethics. That program has been adopted by a number of schools and communities nationwide and teaches core values which they call “Six Pillars of Character.” Those six particular character values are: trustworthiness, respect, responsibility, fairness, caring, and citizenship. Character refers to deep structures of personality that are particularly resistant to change.

Kouzes and Posner find that exemplary leaders practice five behaviors: Challenging the Process, Enabling Others to Act, Inspiring a Shared Vision, Encouraging the Heart, and Modeling the Way. These behaviors were grouped into two categories, one that concerns relationships and one that concerns performance.

In the first category, the leader's behavior, which models the way and encourages the heart, is focused on attributes that a leader uses to build and strengthen relationships with followers. Another characteristic, inspiring a shared vision, also concerns relationships because in order to practice it, a

leader must use verbal and nonverbal expression, also must speak from the heart and actively listen to followers as he/she appeals to shared aspirations [11]. In the second category, the leader's behavior, challenging the process and enabling others to act, is focused on organizational challenges and outcomes. The leader's actions are directed towards helping followers maximize their performance as well as to achieve organizational goals. Other attempts to examine leader's effectiveness were made [12] and this has been categorized into two dimensions: initiating structures (include activities like planning, organizing, defining the tasks) and consideration (recognition, work satisfaction, and self-esteem) that have a direct influence on their performance. Other researchers identified these two dimensions as effectiveness and efficiency, and instrumental and expressive needs [13].

Kozlowski, Gully, et al. [14] suggest a wide range of behaviors that are needed for leading teams. Their list includes developing shared knowledge among team members, acting as a mentor, instructing others, facilitating group processes, providing information, monitoring performance, promoting open communication, providing goals, and allocating resources efficiently.

Another set of skills are needed for democratic leadership: the ability to lead participative meetings, listening, the ability to handle conflict, measurement and decision making skills, teaching and team building skills.

Another study and several meta-analyses found significant relationships of the Big Five traits with different leader behaviors and with leader effectiveness [15]; [16]. Although relationships between personality and leadership typically do not tend to be high, meta-analyses do show they are consistent and provide stable effects [17]. The theoretical review, [18] suggests there is likely to be a link between leadership and the Big Five traits.

Another leader characteristic that has been studied in the past is the leaders' experience. As noted, studies in this subject have focuses more in how the organization strategy is related to the leader's experience, rather than how the experience of leader might be an



influencing factor for the organizations post performance.

Result suggests that organizations will benefit more by hiring executive with a specific knowledge, who will have an important advantage in terms of specific know-how needed in some occasions to achieve a particular strategic objective.

Warren B. [19] made a short list in his book, “On Becoming a Leader”, in which he identifies, “vision, inspiration, empathy and trustworthiness” as key characteristics of effective leaders (p. 140).

Hypothesis 1. Leaders’ characteristics relate positively to organizational performance.

## **2.2. Knowledge-based organizations and performance**

Phrase “knowledge workers” was first used by Peter Drucker and then researchers and theorists have become increasingly concerned with the expansion and the management of organizational knowledge. In the literature there are numerous definitions of the knowledge based organization. One of these, integrates four dimensions, and according to its author, “the degree to which knowledge is an integral part of a company is defined not by what the company sells but by what it does and how it is organized” [20]. Organizational knowledge represents the firm’s intellectual capital and is both a source of current and future earning [21]. The most important determinant of a firm’s survival, is the opinion of Drucker is the firm’s ability to recognize and manage organizational knowledge. Knowledge is the key resource capable of creating sustainable and competitive advantages: valuable, rare, inimitable and non-substitutable. Knowledge resources include: worker know-how, product designs, customer knowledge and efficient processes [22].

Hypothesis 2. Knowledge-based organizations are associated with higher levels of performance.

## **2.3. Leaders’ characteristics and knowledge-based organizations**

The influence of leaders characteristics on knowledge-based organizations should be analyzed empirically, since little knowledge

is available on the mechanisms for transforming organizational learning into performance [23]. It is not wrong to state that leaders’ characteristics (knowledge, critical capacities, skills) always increase performance (e.g. return on assets, equity or sales), since learning always improve an organization’s results. Personality traits are often understood as dispositional motives utilized during goal attainment. That is, personality characteristics predispose humans to behave in certain ways, given particular situations, to accomplish certain goals [24]. Five items have been found repeatedly through factor analyses and confirmatory factor analyses across, time, contexts, and cultures. They are labeled as “the Big Five”: (a) Extroversion, (b) Agreeableness, (c) Conscientiousness, (d) Emotional Stability, (e) Openness or Intellect. Although evolutionary personality theory can provide theoretical justification for leader’s characteristics as predictors of success and knowledge, it can also explain the performance of knowledge based organizations.

Also, Mendez S. [12] has found six characteristics witch are common to successful leaders of knowledge-based organizations: being visionary, valuing human resources, communicating and listening effectively, being proactive and taking risks. Jones and Olken [25] showed, using various methods, that the quality of leaders matters for growth.

Knowledge-based organizations, normally perform better due to greater breadth, depth and speed. Taking this time lag into account, we propose the following hypothesis:

Hypothesis 3. A leader’s characteristic facilitates higher levels of knowledge in organizations.

Hypothesis 4. Knowledge management capacity mediates the relationship between leader’s characteristics and organizational performance.

## **3. Research methodology and measures**

The present study analyzes the impact of leader’s characteristics on performance in the knowledge-based organizations.

**Dependent variables (Y)** are leaders’ characteristics .

**Independent variable** ( X ) are organizational performance.

The questionnaire will be applied to a sample of 362 leaders: 331 will work in knowledge-based organizations from the North-Eastern part of Romania, in trade sector (91.33%), and 31 will manage companies carrying out business, scientific and technical (8.67%). To recruit study participants, the researcher will use a combination of personal and mail survey techniques.

The questionnaire will have two sections: on one hand, will focus on leaders' characteristics, and on the other hand will focus on organizational performance.

The measurement instrument in this research is a questionnaire consisting of two parts. The first part contains questions relating to leader's characteristics with NEO-PI-R questionnaire. The second part consists of another set of questions which analyze performance of knowledge based-organizations, and its reliability and validity have been tested to prove its existence in a suitable extent.

*Leader's characteristics* will be evaluated using specific items NEO-PI-R questionnaire. This is one of the few validated instruments which was used to measure personality traits in Romania, and it includes in its structure five factors, each comprising six facets (Table nr.1). Each facet will be analyzed through 8 statements that describe relevant behaviors.

The items will have 240 variables.

*Performance:* After reviewing how performance is measured in different studies of strategic research a four-item scale was chosen to measure organizational performance. Scales that evaluate performance according to the main competitors have been widely used in recent studies [26]. The question is: “In relation to your main competitors, what is your firm's performance in the following areas?”

- The firm's performance measured by return on assets.
- The firm's performance measured by return on equity.
- The firm's performance measured by return on sales.
- The firm's market share in its main products and markets.

A seven-point Likert scale (1 ‘much worse than my competitors, 7 ‘much better than my competitors’) allowed managers to express firm performance with respect to its competitors.

*Table nr.1. Dimensions and facets analyzed by questionnaire NEO-PI-R*

<b>Factor</b>	<b>Facet</b>
Extraversion	<ul style="list-style-type: none"> <li>• emotionality;</li> <li>• sociality;</li> <li>• assertiveness;</li> <li>• level of activism;</li> <li>• positive emotions.</li> </ul>
Agreeableness	<ul style="list-style-type: none"> <li>• trust;</li> <li>• morality</li> <li>• altruism;</li> <li>• cooperation;</li> <li>• modesty;</li> <li>• compassion.</li> </ul>
Neuroticism	<ul style="list-style-type: none"> <li>• anxiety;</li> <li>• anger;</li> <li>• depression;</li> <li>• unrestrained;</li> <li>• vulnerability.</li> </ul>
Conscientiousness	<ul style="list-style-type: none"> <li>• personal effectiveness;</li> <li>• organization;</li> <li>• moral rigidity;</li> <li>• self-discipline;</li> <li>• caution.</li> </ul>
Openness to experience	<ul style="list-style-type: none"> <li>• imagination;</li> <li>• artistic interest;</li> <li>• emotionality;</li> <li>• adventurous;</li> <li>• intellect;</li> <li>• liberalism.</li> </ul>

Source: Adapted after Costa, P., and McCrae, R., Revised NEO Personality Inventory and NEO Five-Factor Inventory Professional Manual, Psychological Assessment Resources, Odessa, 1992.

*Control Variables.* This study uses control variables for age, gender, highest degree completed in education, and organizational tenure in months. Age and education have been shown to influence followers' preferences for leadership behaviors, therefore suggesting that these demographic variables may also influence leaders' behavior. In addition, organizational tenure and gender are considered important control variables in the leadership literature [32].

#### 4. Results and discussions

In order to test the linear relationships of the for hypotheses, a correlation matrix for the independent and dependent variables will be calculated.

The test will evaluate whether the Big Five predicts the two criterion variables (performance in knowledge-based organizations), regression analyses will be conducted.

After conducting this research, the following points will be emphasized: the relationship between leader's characteristics and performance management in the knowledge-based organizations, also the profile of effective leaders that work in knowledge-based organizations from the North-East part of Romania. Proving the relationship between these two variables is an essential contribution to the literature and it can be seen as an extension of previous research. Organizations can select leaders that are likely to behave somewhat more fairly, share power and have clear roles based on their personality profiles.

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## Strategies for Sustainable Development and Tourism in Central Dobrogea

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### Abstract

*Development of rural tourism in municipalities in Central Dobrogea is an objective of strategic importance for local and regional policy. Identifying ways of developing this sector is important and necessary given the multitude of problems facing the sector and which prevent its development to its true potential.*

*The territory has a multitude of problems due in particular weaknesses in ensuring effective promotion of the tourist potential and lack of integrated tourism products, promoting rural tourism insufficient areas as tourist destinations, lack of publicity of traditional rural events, poor quality of reception facilities tourists, low interest for local cultural events, unstable institutional framework with responsibilities in the development of rural tourism strategies and policies, lack of cooperation in the sector, insufficient information to tourists, mostly undeveloped infrastructure in terms of transport, communications and services, the low level of occupancy of accommodation.*

**Keywords:** sustainable development, rural tourism potential

**JEL classification:** R580

### 1. Introduction

Sustainable development and promotion of tourism will take account of the principles of sustainable development, conservation, and protection of natural and cultural, and reducing human pressure on the environment inherent in the practice of large-scale tourism. Rural tourism should become strong point of communes in Central Dobrogea, is "a form of tourism which includes any tourist activity in rural areas organized and led by the local population, exploiting local tourism

resources (natural, cultural and historical human) and facilities, tourist structures, including hostels and agritourism farms." [1]

### 2. The main areas of intervention

1. Restoration and sustainable cultural heritage and setting up / modernization of related infrastructure in Central Dobrogea territory.

Cultural tourism is one of the important areas that can be developed, being both before traditional markets as well as other tourism niches such as arts.

2. Promoting tourism potential and creating the necessary infrastructure in order to increase the attractiveness of communes in Central Dobrogea as a tourism destination wants to create a positive image of communes Central Dobrogea as a tourism destination by defining and promoting a custom tourism brand, attracting investors and other strategic partners in the development of the tourism industry and increasing its attractiveness. Introduction of new methods of promoting and diversifying promotional materials to create a complex tourism and real images; development and consolidation of domestic tourism by supporting specific tourism products and specific marketing actions in order to develop the concept of leisure tourism in the municipalities of Central Dobrogea and increase the number of vacancies occurring in the area; investment for development or establishment of Centre for Information and Tourism Promotion - construction, purchase of hardware and software - and connection to a national system of information and tourist statistics, online public access. This action will be complementary to support local tourist information centers in rural areas of the National Rural Development Programme. The main segments of tourists interested in practicing rural tourism are young families

who left their villages where they were born, to continue their education or to find a better job in cities, and come here Children show their native places, traditional customs, concerns and pursuits villagers, children and youth, eager to know some activities related to animal husbandry and care, city dweller who wants to escape from daily stress, to spend the holidays in an environment clean and have a healthy diet, high income earners who want to try something new and usually are families with children who wish to offer an attractive and cleaner for spending the holidays, people with low income who can not afford to spend vacation in a destination urban, coastal or otherwise, any person wishing to relax, practice sports in a natural and enjoyable, and those people who want learn a few secrets of crafts (weaving, spinning wool, fishing, coopers, etc.).

Provision of tourism services depends on each client, his expectations, needs and opinions and how well prepared is the staff.

Tourists want quality service, excellent local guides, wanting to travel to small groups are interested in educational programs, quality food products based on natural, uncrowded areas, quality accommodation and are sensitive to nature conservation issues.

### **3. Tourism forms characteristic of the area**

Cultural tourism traveling - with several subtypes, depending on the main cultural categories covered displacements (religious pilgrimage, ethnographic, archaeological, etc.) is a type of tourism representative municipalities in Central Dobrogea and at the same time high perspective. The relative dispersion in the territory involves a network of communication paths tidy, which is not the case in many of the villages of Central Dobrogea (eg Casimcea and villages Rahman, Razboieni, Corugea, Tortoman and village Drop, Mircea Voda Ciocirlia and villages Gherghina and Tibrinu). Infrastructure problems reduce access to some sights and for that reason many do not or can not be included in the basic package tours, remains as forms of individual or group travel.

Rural tourism - tourism embraces all activities carried out in rural areas, aimed at

tourism potential of natural and human villages.

Hunting and fishing tourism - is based on existing hunting fund of municipalities Rasova Central Dobrogea area, Seimeni and some lakes (Lake Baci). Grassland and shrubs favor attracting tourists to the characteristic activity segments. Fund include rabbits and wild boar hunting or fishing various possibilities (Lake Baci, Danube), areas where you can practice riding, encouraged segment and the quality of landscapes (Horia, Haidar's Valley).

Eco-tourism and scientific - is a variant of diversifying tourism activities and commercialization of other tourism resources.. The type of tourism with the highest growth trend in recent years internationally. The literature is also called ecotourism and practice especially in protected areas: national parks, nature reserves, landscape.

### **4. Sustainable tourism development in municipalities of Central Dobrogea**

Municipalities of Central Dobrogea are known for extremely high agricultural potential, which causes increased chances to practice one of the most attractive forms of tourism.

In the analyzes, the municipalities of Central Dobrogea must be identified solutions that lead to the development of agritourism destinations and / or ecotourism in which a product is offered agro / ecotourism integrated result of partnerships made by the actors involved (public administration, local community, private investors) and promoted both by the effort of development associations (eco) tourism developed locally and through the efforts of central governments, through various ways and methods:

Development of the Enterprise and Information: arranging visitor centers - equipped with presentation rooms of different exhibits from the protected area, the design of slides and films on the area of deployment of social activities-cultural. Tot here to be organized Visitors group, contact field guides, collection fees visitation specific trade area and the tourist maps, brochures, albums, souvenirs; setting up information points in the main access places in the area

(town hall, school, church, police); establishment of local information centers and tourist promotion; development of special paths (thematic, equestrian, bicycle, photo-Hunting - with resting areas, bulletin boards and interpretative guidance arrows; arranging tourist routes depending on the tourist potential of each joint or joint operation of sightseeing in neighboring communities, arranging points (pavilions) observation and lookout points - with panels of interpretation, observation infrastructure (Rasova, Seimeni); setting up campsites - with delimitation, information boards and warning, fire hearths, toilets (Horia, Tibrinu of common Mircea Voda village, township Seimeni); arrangement of parking places close access to sights - with toilets, waste management system, information boards and warning; location indicator panels, informational, warning, promoting parks.

Making a guide to good practice in terms of tourism infrastructure, given the minimal impact of design, waste management and energy conservation; providing the necessary maintenance and perpetuation of traditional customs, development and promotion of traditional customs. This is one of the key elements that bring added value to the tourism product. To implement this action would be necessary to select certain habits (related to winter holidays, farm work, harvest day, festivals, etc.) or certain traditional crafts in the area and support artisans and communities to continue traditional activities and to establish the link between them and tourism. Is required to encourage and support these activities because they are not very productive, economically efficient in terms of contemporary civilization. Also, they must be properly and promoted. In this way you can create custom recovery centers for traditional (folk dance ensembles, choir, orchestra of folk music, groups of singers and exploitation of traditional crafts - processing wool, wood, stone, leather, rachitaritul, etc.) Encourage the development of leisure services with minimal impact on the natural environment is an important component of leisure stay, often the main motivation for travel to a particular destination. It is the surest way to increase the length of stay for leisure diversification leads and increase the level of satisfaction of tourists. Particular

importance lies and the effect of stimulating the local economy. It is necessary to adapt the principles of ecotourism services Entertainment - minimal impact on the natural environment, exploitation of local resources, sustainability, preservation of traditions. In this respect it is necessary to diversify the supply of leisure: bike rental, riding centers, tennis rounders (the national sport), carriage rides and sleigh, participation in farm activities glycols, etc., improving quality tourism experience - Creating Product / integrated ecotourism programs.

Cooperation between local stakeholders is key to effective ecotourism activity. Each of them may specialize in a particular direction (leisure, transport, accommodation and food etc.), but only together can provide a complete and competitive package.

In these circumstances it is necessary to offer an integrated approach to both tourists and the manner of its organization in order to achieve tourist programs with a slower rate of visits, diversified, to polarize the main resources under the destination, tourism product integration in -a unified concept by developing a slogan and a logo to the destination unit, elements that will be used for all promotional activities at the destination, the realization of "cards (eco) tourism", through which it will provide an opportunity for input multiple objectives, and free / discounts for access to other tourist attractions located in the adjacent park (museums, castles, memorial houses, etc.) and cuts to services of accommodation, food, transport and recreation; creating innovative products at ecotourism destination. Within these products will be used all the opportunities offered by tourism destination - hiking and nature activities (canoeing, horseback riding, climbing, observing animals, cycling, etc.), visiting tourist sheepfolds, cultural sightseeing, participation in agricultural activities and craft of the local households, participation in local events.

The purpose of this study on the possibility of development in terms of tourism, the communes of Central Dobrogea will be focused on the following objectives: to increase the importance of tourism in the local economy; to diversify the local economy and increase the number of people employed in tourism; to develop harmonious and sustainable municipalities in Central

Dobrogea; Central Dobrogea transformation into a recognized tourist destination; to preserve local identity communes in Dobrogea (architecture, lifestyle and local traditional products, etc.).

## 5. Conclusions and proposals

Absolutely remarkable tourist potential emerging tourist profile of the municipalities of Central Dobrogea can be defined by diversity and multiculturalism.

The variety and density of landmarks can be grouped into: cultural areas - focusing on architecture, religion, history; main landmarks are the monasteries, churches, reminescentele city, museums; a particle size in terms of cultural traditions and crafts is represented for the purposes of maintaining them; natural areas - are related to the whole picturesque landscapes, wildlife reserves; mixed or complex areas - where overlap or complement the two previous versions. An example of this would be added as the traditional agricultural products, which combine in a happy suitability natural factors of human activity, marked by the spirit of preserving traditions.[2]

In rural areas it put a better use of land, development of services (crafts, tourism, public sector, trade, etc.), keeping the defining elements of how to construct buildings, existing architectural style, the development of models for making catalogs new building intended for housing or tourist activities (household annexes, warehouses, stables, warehouses etc.).

From this perspective, the types and forms of tourism that can be practiced in the villages of Central Dobrogea are numerous and blends very much, which is a good thing, but it requires a lot of attention and selectivity in the presentation and promotion of tourism products. Multiculturalism has made its mark on the economic, social and cultural diversity contributes to the high current density and grouped targets restans space, which constitutes another advantage in terms of tourism recovery.

Communes Central Dobrogea are and remain a versatile destination in terms of the incentives for tourists and interests that categories of tourists that can be drawn are heterogeneous. On one side is an advantage due to higher chances to attract more tourists,

on the other hand is a disadvantage, since this makes it difficult polyvalent coherent strategy to promote tourism valences of all the communes of Central Dobrogea, each characterized by specific other.

To meet these requirements can be developed and promoted, the following activities are required in municipalities in Central Dobrogea GAL: bird watching in villages Rasova, Seimeni Cross; viewing wildlife in Horia, Cave, hiking / thematic programs in common Mircea Voda, Seimeni, Casimcea; Riding in Horia, Ciocirlia Cross; visiting caves, wind park in the village Cave; other outdoor activities: bike ride, carriage rides, visits to traditional housing in villages Saligny Saraiu, Tortoman, etc..

## 6. Motions

Development of infrastructure for ecotourism;

Construction or rehabilitation of housing for the function of the pension. Their architecture should be take into account the local style of houses with porch. If pensions will develop in older homes, in addition to the necessary facilities and traditional look to be;

Pensions should offer tourists menus from natural products from the household;

The existence of farms that practice organic farming in the area;

Building bird watching towers and wooden paths;

Building bird observatories, preferably with a clear view of the Danube and the banks that are not easily eroded to avoid their destruction during periodic floods of the river (where it identifies the silt deposition) in Seimeni and Rasova possible. Thematic routes should be marked.

The tourist routes will need to be compelling;

Making a regulament for tourists. It can have a size of 20 x 12 cm folder in which to specify rules that tourist must meet in order to protect nature but also for their own safety. Rules will be made available to tourists in hotels, visitor centers, tourist information centers or by guides.

Conducting training for guides specializing in ecotourism. Like other categories of tourists opting for eco-tourists not only want to visit a certain place but also



to learn more about it and to know însigurantă. Courses for guides specializing in ecotourism be performed by specialists to familiarize students with general aspects of the activity guide with ecotourism principles, points of interest and species of the area and how to ensure the safety of tourists due to the presence wild animals such as wild boars. Of course, the courses will cover not only the village but the rest of the participant surrounding natural areas that may be subject agritourism activity. It is not recommended to make those type courses and distance learning guides should familiarize themselves with the various situations that may occur in the field. Not much can opt for a mixed variant, the theory can be accessed via the internet but there 2-3 field visits.

For tourists to spend more time in the area of agro packages may be included in ecotourism packages for Natura 2000 sites of the village Seimeni or can be combined with other forms of tourism such as rural tourism, rural tourism and cultural tourism. Also can develop packages in partnership with Natura 2000 sites in other neighboring towns as well:

Agrotourism Package for researchers / students - at least 5 days package - accommodation in a boarding house or camping with low prices and transportation to destination;

Package weekend or 2-3 days - accommodation in hostels or agrotourism houses, insurance, transport, organizing a picnic on the Danube, an optional boat ride in villages Rasova, Seimeni;

Trips organized by tour operators in Constanta for other tourists;

Day trip with picnic visited town or participation in local events such as days of the village, the church patron, holiday sweets, (common Ciocirlia);

Excursions for students in Constanta County and other areas of the country - day trip, with observation of birds visiting the farms or livestock, rural households and picnic table or provision of traditional products of the farm housewife visited;

Packages a week in combination with other types of tourism: tourism, cultural tourism, etc. - with visits to churches, archaeological sites, optionally other attractions in the area: Acacia Flower Festival in common Cave Festival Acacia

spirit in Horia, Festival plum jam Saraiu town, Celebration pie school in the village Mircea Voda, etc;

Considering all these aspects can say that the emergence and development of settlements in the near future will be sized tourist valence of detailed knowledge of the carrying capacity of the environment, resources that could be used and exploited for tourist services. Avoid destruction of the old built heritage, natural wildlife areas, the development of large blocks built, uprooting people from one place to another, loss of cultural identity.

Any tourist development is based on an analysis of detail that gives at a time, a certain image of territory and its full tourism potential of all its features, expressed by: Real Image → Project → Physical Planning. A project proposed for the recovery of tourism resources can be by setting the main objectives and propose viable solutions a real long term development and tourism planning model. Based on actual knowledge of the reality of Central Dobrogea and suggest local communities can create multiple spatial models, to be chosen the best solution offering management and tourism development of a territory.

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## Review on Lean Tools used in Manufacturing Process Improvement (I)

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### Abstract

*Lean thinking is a contemporary paradigm that has been acknowledged as a requirement for continuous process improvement and excellence in manufacturing and service organizations around the world.*

*Lean concept refers to the effective management of an organization's production processes by eliminating waste i.e. processes that do not add value and are not required.*

*Lean is related to creating more value for customers and consuming fewer resources by minimizing waste. An organization where lean is implemented understands customer value and focuses its key processes to continuously increase it.*

*In this paper is made a review on 15 relevant Lean tools used for process improvement in manufacturing. For each Lean tool the review is focusing on description and on establishing main characteristics. The paper is useful for business specialists who seek implementing Lean and for scholars who intent to explore the applicative part of Lean.*

**Key words:** JIT, Gemba, Kaizen, Kanban, Muda

**J.E.L. classification:** L6, L23

### 1. Introduction

Lean manufacturing is a manufacturing philosophy that shortens the time between the customer order and the product shipment by eliminating sources of waste. According to this philosophy, waste is any human activity that absorbs resources but does not contribute to transforming a part to the customer's

needs, so does not create value, while value is „any action or process that the customer would be willing to pay for“[1], or “a capability provided to a customer at the right time at an appropriate price, as defined in each case by the customer” [2]. For example, a part sitting in a pile of inventory is waste and the goal is to keep product flowing and add value as much as possible. Lean thinking focuses on value-added flow, synchronizing operations so they are aligned and producing at a steady pace and on acquiring the efficiency of the overall system.

If we watch an operator work we can observe many individual operations but only a few add value to the product. Though, some of the non-value operations are necessary, for example, when the operator has to walk to get a power tool. Lean thinking means to search all the viable solutions to minimize the time spent on non-value added operations, for example, by positioning the power tool or other needed materials as close as possible to the point of assembly [3].

Lean literature is represented by the basic works of T. Ohno who is considered the father of the Toyota Production System, a system equivalent to Lean manufacturing in US [4]. Womack, Jones and Roos from MIT recommended implementing lean for Western automobile production and explained the benefits of lean along with examples from Japanese industry [5]. Also, Womack and Jones updated their knowledge regarding value-based business system, value stream, lean enterprise, pull of the customer's needs and muda (waste) [2].

Rother and Shook made a notable study of Toyota and discovered the value stream mapping tool [6] and the list of lean scholar works continues.

Comprehensive systematic literature reviews on lean literature were made by K.B.

Stone [7], H.G. Martinez and W.X. Lu [8] ,  
N. V. Jasti and R. Kodali [9] and others.

## 2. Review on Lean tools used for process improvement in manufacturing

In this paper is made a review on 15 Lean tools used for process improvement in manufacturing. The methods used in the study are comparison and literature review of more than 20 basic and updated sources regarding Lean knowledge, available on paper and in electronic format.

The Lean tools review is presented on a tabelar structure adapted to the work *Top 25 Lean Tools* made by Vorne Industries Inc. [10], an American company providing productivity enhancing solutions. The company was rated with a financial strength indicator of 3A1 by Dun & Bradstreet world database of business information, having a tangible net worth above 7 million £ in 2012.

The review work encountered several constraints:

1. The list of Lean tools is comprehensive but in this review we focused only on a number of 15 Lean tools. We will further expand this review.
2. There were encountered difficulties in understanding some Lean concepts. When considering Lean knowledge, one should keep in mind that Lean has Japanese origins and that the Asiatic culture differs much from European or American culture. Over the years, Lean was translated in English, more or less accurately, by various practitioners.
3. Same lean tools used in manufacturing and promoted by Lean specialist are sharing different names, depending on the quality of the translation of the original concept. Paradoxically, one can consider that this situation creates waste of time and resources in the endeavor of reviewing the lean tools database.
4. Lean tools applied in similar situations can lead to miscellaneous results. Implementation of Lean depends on many variables, ranging from elements regarding culture (national and regional), business environment up to mentality of

managers, workers, clients and community.

5. Finally, a particular constraint was the lack of access to observations made at Romanian companies who implemented Lean, especially at companies running in the Romanian maritime domain (e.g. shipping companies or shipping yards), taking into account that the research specialty of the author is maritime transport. This situation is the result of the fact that Lean is less known and/or applied by Romanian companies compared to other countries. There are several commercial Romanian institutions and associations (e.g. Asociatia Expertilor Lean din Romania), academics and Lean specialists who have already put the cornerstone of Lean in Romania, though at the moment of March 2015 the author of the paper cannot present a clear statistics of the number of Romanian enterprises that implemented Lean.

Following are enlisted 15 Lean tools reviewed, comprising their description and their characteristics [1, 10-14, 16-25].

### 1. 5S Check List

5S is a workplace organization method, synthesized by the following phases:

- Sort (eliminate that which is not needed);
  - Systemize (organize remaining items);
  - Sanitize (clean and inspect work area);
  - Standardize (write standards of the best practices in the work area);
  - Sustain (regularly apply the standards, perform audits and training).
- Two additional S can be added: Safety and Security
- Helps to measure and evaluate the implementation of the 5S in the company;
  - serves as an audit checklist for evaluating the system;
  - helps monitor and manage improvement over time;
  - contributes to continuous improvement;
  - helps monitoring waste removal (e.g. wasting time for looking for a tool or a spare part);
  - Consist in a list of questions with answer scores from 0 to 5. The answers can be

marked easily in the list there where the score is appropriate. The check list will be completed by employees, area supervisors and any other significant people. Questions vary from sharing opinion related un-needed items in the area, implemented 5S, documented standards, safe work practices, work instructions, continuous flow, quality control, training, employee engagement etc. The check list contains blank spaces for additional comments on each question.

### 2. A3 Gemba Interview

-Questions asked when interviewing workers, to systematically encourage both the observer and the process worker to come up with creative ideas;

-A3 means more than the international-accustomed size of 297x420mm paper: is a resume or a sort of complex diagram that can be adapted to any person, no matter the layout or style used, but containing logical sequences and paragraphs, linked one of another;

-the tool is useful for realizing Lean Ideals by applying the Toyota 4 Rules In Use proposed by Spear and Bowen;

- The questions aim identifying the following: standardized work, ambiguity removal, uninterrupted flow, development of leaders who can apply scientific methods to improve anything;

- Identify all types of waste

- Thoroughly explore all possibilities to accomplish lean objectives and apply the 4 Rules In Use.

### 3. Andon

- Visual and/or audio notification system used in manufacturing that alerts management, maintenance and other workers when assistance is needed, indicates production status and empowers operators to stop the production process when appears a quality or a process problem. - One of the principal elements of Jidoka quality-control method pioneered by Toyota as part of the Toyota Production System;

- Acts as a real-time communication tool

- Brings immediate attention to problems as they occur in order for prompt action.

### 4. Block Diagram

- Visual representation of a process, showing the major steps, their sequence,

number of operators, inventory levels and cycle time of processes.

The Diagram can be made by going through the following steps:

- Process observation at the place where the work is done (gemba).

- Sketch of the Major Steps of the Process (one block for each sub-process and a brief description in each Process Box;

- Minimal information for each Step (Who does it? Where? How much inventory? etc.)

- Cycle time observation

-The Block Diagram is used together with other Process Analysis Tools.

- The ultimate objective of the Block Diagram is to actually improve the process.

### 5. Bottleneck Analysis

-Identify which “part of the manufacturing process limits the overall throughput and improve the performance of that part of the process.”

- Identify the causes of bottlenecks in the manufacturing process;

- Focus to critical issues and priorities to address;

- Finding solutions for bottlenecks improve the performance of the problematic part(s) of the process;

- Related to Theory of Constraints.

- Improving overall throughput.

### 6. Continuous Flow

Minimal buffers between steps of the manufacturing process;

-Moving products through a production system without separating them into lots [14]. Eliminate many forms of waste (inventory, waiting time, defects, over-processing, transport, un-utilized people etc.)

### 7. Gemba walks

- In Japanese, Gemba / Genba means the real place where value is created.

- Gemba walks refers to visits in the plant in order to see the actual processes where value is created -Involves: plant observations, talks with employees to understand their work, asking them questions and learn about their work activities [16].

- Executives should spend up to one hour every week or two gemba walking with a Lean teacher (sensei or coach) for half a year- one entire year after which they should regularly gemba walk on their own in order

to maintain the disciplined adherence to Lean thinking [17].

8. *Heijunka* (level scheduling to reduce variation)

- Represents “a form of production scheduling that purposely manufactures in much smaller batches by sequencing (mixing) product variants within the same process” [10]. -Production leveling

- The goal is „to produce intermediate goods at a constant rate so that further processing may also be carried out at a constant and predictable rate in order to reduce fluctuations in performance“.

-Reduces lead times (since each product or variant is manufactured more frequently) and inventory (batches are smaller).

9. *Jidoka* (*Autonomation*)

-“Design equipment to partially automate the manufacturing process

- “Partial automation is typically much less expensive than full automation

- Automatically stop when defects are detected

- Workers can frequently monitor multiple stations (reducing labor costs) and many quality issues can be detected immediately (improving quality)[10].

10. *Just-In-Time* (*JIT*)

-“Pull parts through production based on customer demand instead of pushing parts through production based on projected demand;

- Reduce inventory

- Improves cash flow

- Reduces space requirements”[10].

11. *Kaizen* (*Continuous Improvement*)

“Strategy where employees work together proactively to achieve regular, incremental improvements in the manufacturing process;

-Combines the collective talents of a company to create an engine for continually eliminating waste from manufacturing processes [10].

12. *Kanban* (*Pull System*)

-A method of regulating the flow of goods both within the factory and with outside suppliers and customers. Based on automatic replenishment through signal cards that indicate when more goods are needed.

-Eliminates waste from inventory and overproduction. Can eliminate the need for physical inventories (instead relying on signal cards to indicate when more goods need to be ordered) [10].

13. *KPI* (*Key Performance Indicator*)

-Metrics designed to track and encourage progress towards critical goals of the organization. Strongly promoted KPIs can be extremely powerful drivers of behavior – so it is important to carefully select KPIs that will drive desired behavior

-The best manufacturing KPIs:

• Are aligned with top-level strategic goals (thus helping to achieve those goals)

• Are effective at exposing and quantifying waste (OEE is a good example)

• Are readily influenced by plant floor employees (so they can drive results) [10]

14. *Machine Balance Chart Template*

-Template used to ensure that the Machine Cycle Time for any machine does not exceed the Target % of Takt time established for one process [11].

-Highlights the cause of the problem of exceeding Takt Time in the case of equipment that runs automatically without operator intervention.

In the template are mentioned: the name and type of the machine, time marked for load, unload and start, longest change over time, smallest batch size, change over cycle time, lost time, effective machine cycle time, Takt time and targeted Takt time with distinct mention of the Takt rate of accomplishment.

15. *Muda* (*Waste*)

- Tool of identifying “anything in the manufacturing process that does not add value from the customer’s perspective”;

-“ identifying concrete solutions of muda removal.” [10] There are 7 types of muda resulting from processes of over-production, processing, transport, waiting-time, inventory, motion and defects.

### 3. Conclusions

Understanding original Lean thinking and applying Lean tools requires not only comprehensive knowledge and a complex understanding of several domains

(engineering, business, comparative multicultural management, foreign language skills, communication, leadership etc.), but also extra time availability measured in terms of years, not months, and, most important of all, a resonant qualified sensei or guiding teacher/ coach available for long term guidance. In a continuous rushing and impetuous society, learning Lean might leave room for misunderstandings or misinterpretation of the original notions, reflected in subjective judgment of Lean implementation results.

The review of Lean tools presented in this paper is not exhaustive. For an improved and more complete review should be taken into considerations the constraints meet and observations presented above, especially the fact that several same Lean tools used in manufacturing and promoted by Lean specialist are sharing different names, depending on the quality and accuracy of the understanding and translation of the original concepts. Unfortunately, this situation can be paradoxically considered as time and resources “waste contaminated” in the endeavor of reviewing the complex lean tools database.

The review should be useful for business entrepreneurs who seek implementing Lean in their business. Also, the review might be considered useful for scholars who wish to explore the applicative part of Lean implementation.

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# Informal Groups in Global Work Environment: Group Work or Team Work?

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## Abstract

*Groups and teams within the organizations represent a widespread subject of research nowadays. But there are aspects that still need to be considered, especially in a global economy which brings along new opportunities and challenges. In this context, in the present paper we aim to clarify the differences between formal group, informal group and team, but mostly between group work and team work, as different work styles in organization. We also point out the consequences of using the wrong type of work style in a specific task situation which is particularly important in actual global work environment.*

**Key words:** formal group, informal group, work team, group work, team work.

**J.E.L. classification:** D23, L29, M12, M19, M54, O15

## 1. Introduction

The most general classification of the organizational groups takes into consideration the degree of informality in the relations between employees, respectively are delimited formal groups, with low levels of informality, and informal groups, with high level of informality.

Formal group is a group that exists within an organization, by virtue of manager desire, for performing the tasks that lead to achievement of organization objectives. The arrangement of members in areas such as marketing, human resources and production departments are examples of formal groups,

and these departments are clearly defined and structured. [1]

Informal group is defined as being composed of a number of persons whose joint work experiences give rise to a system of interpersonal relationships which extends beyond the limits of work relations set by management; he naturally evolves as people interact with each other.

Although teams is a much broader matter and they are entitled to bear significant differences from formal group in organization, from the management perspective, work team falls, however, in the category of formal groups. Therefore, we consider of great pragmatic interest the comprehension of the base differentiation between groups, whether formal or informal, and teams, on one hand, and between group work and team work, on the other hand. We highlight and analyze these differences having as benchmark, primarily, the type of task to be accomplished by members of groups and teams, and secondly, the elements which give shape to informality in organizational groups. This endeavor is made because the differences above mentioned pull along among the most diverse effects on performance at group and team level and also at organization level.

## 2. Work team between formal group and informal group

Setting up informal groups is determined by the existence of several factors, the most representative for their functioning and sustaining are: [2, p.347] the role that each member has within the group, the aim of constituting the group, the individual



satisfactions within the group, and the influence of individual within the group.

Informal groups tend to evolve in organizations due to the advantages which their members can get, namely: [3, p.310]

- ▲ perpetuating the social and cultural values which group members consider to be important;

- ▲ social status and satisfaction that people achieve only if they are members of the group;

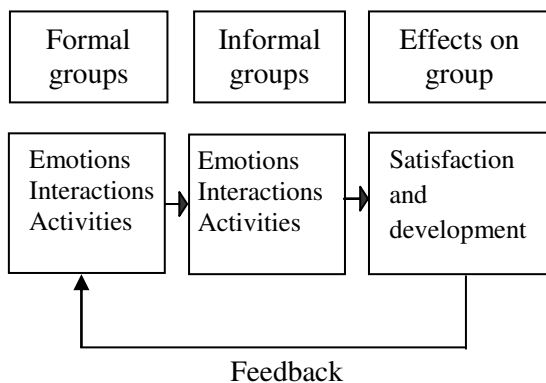
- ▲ facilitating the communication between group members;

- ▲ improvement of general work environment.

Related with those two types of groups we can discuss about a formal role (derived from aspects defined by the organization for any job/position and detailed in official documents – for example, organization chart) and about an informal role (that assumed by person “as an expression of its needs mostly unconscious, as part of his personality and as a reaction to «group invocation»” [4, p.223]).

According to Homans, informal group is established in order to provide satisfaction and development opportunities to its members. At the same time, feelings, interactions and activities that occur within an informal group arise from feelings, interactions and activities that are already manifested in formal group. [5, p.510] Figure 1 summarizes the George Homans’s theory on the evolution of informal groups.

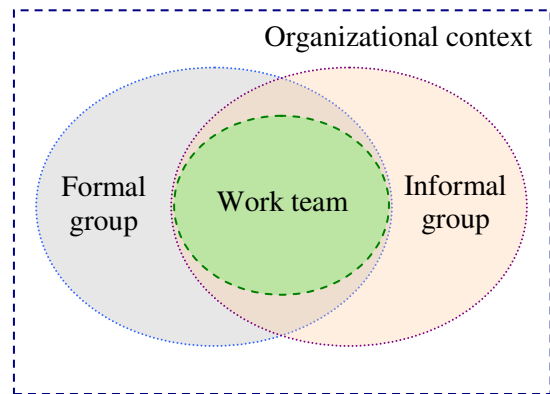
Figure 1. Homans’s conception on how informal groups develop



Source: Certo, S.C., *Managementul modern – diversitatea, calitatea, etica și mediul global*, Ed. Teora, București 2002, p. 510

Thus, in view of these two premises, it follows that on the basis of feedback on the functioning of the informal group, managers can modify the formal group so as to increase the likelihood that members of the informal group obtain the satisfaction and development which they desire. The final consequence will be strengthening solidarity and productivity of formal group, and this consequence is wholly beneficial for the organization. [6, p.114]

Figure 2. Team localization within the organizational groups



In contrast to roles of employees belonging to formal groups, roles which are stated by the organization chart, formal roles of team members are quite difficult to separate from those informal, as long as unwritten norms exist, but they are collectively and by mutual agreement assumed at the team level, for which these norms gain particular theoretical meanings but also important practical implications for team functioning.

In any case, it seems likely that the overlapping “area” of formal groups with informal ones (in so far as they are identified in the organization) can indicate a high probability that members belonging to both types of groups to perform better together than members belonging to only one of them, but upon condition that their objectives are consistent with or derived from organizational objectives. This idea is suggested graphically in Figure 2.

### 3. Some differences between work teams and work groups

Regardless of the approaching manner of work team as a particular type of group, most authors agree that all work teams are groups, but not all groups are work teams. [7] A group consists of people who work together but can work even without each other. A team is a group of people who can not do the work, at least not effectively, without the other members of their team. [8]

In fact, according to some authors, specialists in leadership, the differences between a team and a group reside in the following: [9, p.75]

- ◆ Target – teams have a goal or purpose unto all their members tend to. There is a leadership that gives them some direction and guidance in their activities towards the target. As targets can change and they should change, leader must take care to renew people’s energy and concentration, maintaining their alignment with the collective goal, even if circumstances permanently change.

- ◆ Engagement – people want to be part of the team, they engage themselves to achieve its objectives and struggle to accomplish them through personal contribution, and through performance achieved with the support of the others.

- ◆ Action – all activities are directed towards attaining the target. People act interdependently, ensuring that all their actions are coordinated in a convergent manner. Each of them focuses to contribute with their full capability at any time, and all their actions are directed towards achieving the target.

- ◆ Maintenance – any team needs care and maintenance in order to ensure its development and sustainability just as a high-performance engine needs to be provided with a regular service to give the best results. Team members can have such a significant role, able to care for one another and support each other. For maintaining a team is important for people to reciprocally appreciate each contribution, to appreciate each other, to enjoy successes.

- ◆ Synergy – basically, a team produces better results than those obtained by its members, working separately. People are concerned with the continuous improvement

of their work and with attaining synergy so that their collective result is greater than the sum of individual results.

Shortly, a group can be considered a team only if its members help each other to achieve the common objectives [10, p.12], both at individual level as well as group level and organization level.

### 4. Team work versus group work

The basic unit for most organizations, regardless of their size, should be the team in the real sense of the word, and not a group that is labeled by management with the name of team. [11] And yet, teams are not always best suited to all organizations and/or for all tasks thereby the primary concern for management is to identify the nature of common task that the small work collective has to fulfill.

Thus, teams might not be the answer to any organizational problem because there are tasks which do not match with team work. For example, urgent tasks are often best fulfilled by individuals alone, and repetitive tasks, by machines [12], team work representing a more effective approach than independent work when must be addressed complex problems. [13]

To the extent that the task type that a work collective has to achieve can be rigorously determined, it may prove particularly useful the demarcation we proposed in Figure 3. Starting from the assumption that the goals of work group differ from those of work team by the low or non-existent level of interdependence between members’ activities, we underline and detail some ideas with important practical consequences:

- Work group has to realize simple tasks that do not necessarily involve collaboration and exchange of information between members since their activities are independent and can be aggregated, which can be defined as group work. For group, the application of work style specific to team, that is team work, can be a matter of choice, and the focus is mainly on affective relations, on sympathy between members: it is the option of members to help each other, to exchange ideas, to compensate each other the possible low performance, to work harder to achieve the objectives which if can not be

higher because is not the case [14], then can be attained sooner than expected. But a complex task assigned to a work group will make from this nothing than a dysfunctional group due to the overall lack of perspective that is specific to group work. The group needs a person that integrates its activities in the group outcome and that person is usually a manager appointed from outside the group: he sets objectives for the group, allocates subtasks to members, ensure that the group meets the *a priori* established criteria of efficiency, which conflicts with team work style that involves, by definition, at least a minimum of autonomy in achieving the common goal.

– In the case of work team, the level of dependence between members’ activities (individual subtasks) is high and requires team work, respectively imposes an organized cooperation and more, a minimum of self-organized cooperation. Emotional, affective relations are not excluded, but dependence is given by the nature of the task, so as team work is no longer a matter of choice, it is absolutely necessary because the achievement of common goal could not be possible without the “mix” of individual contributions, respectively, without synergy. Much more in the case of activities in form of projects, the compensation of a poorer performance, for example, is not (anymore) a matter of friendship or expected reciprocity, but a *sine quo non* condition in order to correctly and timely finalize the project or a complex sequence of it.

On the other hand, the combination of a simple task and team work only lead to failure, often invoked in case of teams, but without a prior analysis of its causes. For example, Millward, Banks and Riga believes that team work is a designing strategy for organizing the work in a flexible and coordinated manner which essentially should produce synergies, but most often fails to obtain even the summative criterion. [15] Well, if we consider the summative criterion, then the task is simple, entirely additive, and suitable to group work and by no means to team work. Frequently, managers used to adopt various forms of organizing the work in line with what “is in vogue” and in the case of teams, to attribute to a group of employees, which they name it “team”, tasks which are not appropriate to a team

respectively, are not sufficiently complex and do not involve diverse knowledge and skills. Thus, it can not be claimed from a small group to work as a team, collaborate, intensively communicate, exchange information, support each other and so on when the task does not require these things; members will tend to believe that the problem to be solved is more complex than it really is as long as they should “team up” with others, and will end up unnecessarily complicating issues, will lose all spirit and such experience will tell them that team work is a waste of time and not at all a challenge, an opportunity for personal development and a unique source of professional and personal satisfaction.

Therefore, effective work team (functional, mature team) practices team work because it is appropriate to complex tasks that require from members besides domain-specific knowledge and skills, a high degree of creativity and proactiveness. The quality of *team player* is mandatory by the virtue of the context imposed by the task difficulty which requires task related expertise and knowledge that can not be owned by one person, and also requires relational abilities. In addition, the time required to achieve the common task exceeds the time available to a single person.

Figure 3. Effectiveness of group and team depending on the work style and task type

Complex task	Dysfunctional group	Functional team
Simple task	Functional group	Dysfunctional team
	Group work	Team work

And then, team members must be “technically” prepared with their own expertise and contribution, but also “tactical”, with a very clear idea of the project as a whole [16], while the group members do not need to know what their

colleagues do in order to perform their own duties. Given the interdependence between the activities that compose the team task, even though at the individual level some modifications are small changes, small innovations, their incremental effect can be huge. For example, in the car industry, the production flow involves many successive activities [17], which means that an error in one point can propagate along the entire production flow and may compromise the work of all employees involved. Similarly, for any complex task involving interrelated activities, such as projects of any kind, attention granted to both overall common task as well as subtasks that compose it, is crucial for the performance at team level. And this indicates that collective work can not be replaced by individual work in complex situation, no matter how gifted are some individuals.

Finally, the absolute differentiation between work team and work group shall be made in the light of nature of result produced and nature of responsibilities exercised. “A work group relies primarily on the individual contributions of its members, the amount of which lead to the group result. Conversely, a work team tends to amplify the collective impact of what could bring each member if he or she would work alone in order to achieve what we call *a product of collective work*.” [18, pp. 88-89] This product, however, can not be quantified using summative criterion, invoked in all definitions of synergy in team, because behaviors are those that give the measure of team work and implicitly of its synergy effects. More precisely, positive forms of synergy in teams are caused by individual behaviors that lead to extra efforts exerted for completion of the team task and, therefore, have a positive influence on the overall team performance. [19]

## 5. Conclusions

Team work represents “a set of values that encourage listening and constructive reaction to the views expressed by others, treating with interest the views of others, support and recognition of the interests and achievements of others.” [20]

Usually, informal structures appear and function on the ground of formal ones either

to compensate some of the shortcomings of formal groups or to complete them or simply to deny their rigidity. There are also situations when informal structures within a group, although initially presented as such, tend to formalize themselves along the way in order to confer some degree of efficiency to the group. In this case, we discuss about the evolution of group to the team stage, which takes time as long as team represents a superior stage in group development. Therefore, teams will hold both the advantages of formal group (efficiency, rigorous organization, normative system, common to all members) and also those of the informal group (open communication, flexibility, adaptability).

Further, the application of work style, either group work or team work, appropriate to task that members must fulfill, will be a measure of management efficiency and will be reflected in the results of the organization. This is especially valid for multinational organizations that integrate in groups and teams employees very diverse not only in terms of professional training, but especially in cultural terms. Thus, the leadership applied should be different from team to team and from group to group, and adapted to members which must be coordinated and motivated, otherwise, it will not be reached the full potential of work team and/or work group.

Hence, team work is an “umbrella” concept that is often understood as the measure, the degree of cooperation that exists in teams or between teams, but more empirical research is needed in order to articulate the components of effective team work, especially in the services sector. [21] Moreover, is required empirical research showing more specifically the differences between the real teams and groups which work in the same spatial/geographic proximity and virtual teams and groups which collaborate in a global virtual space, and lack physical contact and face to face communication. All this requires extensive changes in organization management forasmuch as “web work style differs significantly from work style of the traditional organizations” [22, p.193], and “at the world economy level there is a trend which reveals that large corporations convert to several small companies focused on

different areas of corporate activities”. [23, p.196] These small companies may well be a team itself or can be composed of several teams, but with no more than two hierarchical levels.

Finally, in order to face the opportunities and challenges of the actual global market, managers and leaders should address now more than ever the issue of informality in their organization, group or team because the employees’ ideas and involvement can be crucial in a extremely competitive environment in which a small change, a little innovation can trace the line between success or failure.

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**Section II**  
**Business Economy and Administration**

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**Subsection 3**  
**Finance and Accounting**

## Romania from Connection to Disconnection between Taxation and Accounting - a Comparative Analysis of the Two Areas

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### Abstract

*The relation between the taxation and accounting is an attractive subject, with various areas of researching. At the international level this relation has various classifications, but the most representative can be the dependence of the two areas or the independence. Romania is a country which has an interesting history, which influences this relation. The effects of the Romanian past events, can be observed in our days, in both of the areas. The paper aims to present what is the evolution of the relation of the two areas at the level of the legislation, and the professionals, starting with the presentation of the objectives of the taxation and accounting.*

**Key words:** connection, disconnection, accounting, taxation

**J.E.L. classification:** H20, M41

### 1. Introduction

The relation between accounting and taxation differs from a country to another. Therefore there can be a strong connection or a clear separation between the two systems.

This paper analyzes the relation between the Romanian fiscal regulations and accounting regulations. More specifically, it is desired to determine is if they are independent or dependent and if they are dependent which one is the subordinate.

So, first the paper presents a short history of the evolution of accounting in our country. Then there are described the objectives of the two areas. The purpose of this description is to find out if they are the same, or not.

Further the paper describes the evolution of the profession of chartered accountant and that of the tax advisory in Romania.

Finally, the paper analyzes the Romanian fiscal regulation and accounting regulation to find out the relation between the two.

### 2. Connection of taxation and accounting – the result of the Soviet influence

Being in the communist regime, after the Second World War, Romanian accounting became a source of gathering data for the state. All the companies' accounting information served only for the state, and any other user did not exist in that period. So, at that time, the accounting was restricted by the Communist state and all the accounting books were translations from the Soviet accounting. That is way the taxation was very important. So that is the period in which the link between accounting and taxation became very strong. In the context of communism, a collective view on accounting is developed regarding its role (to serve the State), the low status of the accounting profession, the secrecy over the accounting information, the role of the State as the sole user of such data, and accounting as a means of recording, while certain practices, concepts or terms are evolving. [1]

After the fall of communism in December 1989, Romania underwent a number of dramatic economic and accounting reforms that better reflected western business principles. [2]Therefore, starting with 1990 Romanian economy is in search of a new identity and new laws were adopted like the Law for the Trade Companies 31 of 1990 or the Accounting Law no. 82 of 1991.

In the first ten years after the fall of the communism, the accounting and taxation were strongly connected. The accounting was

recognizing only what was permitted from the fiscal point of view.

Between years 2000 and 2003, there appear some new regulations which try to change the existing relation between the accounting and taxation. In 2001 appears the Order no. 94, which replaced the previous order (Order no. 403 of 1999) and which required the harmonization of the Romanian accounting regulations with the European Directives and the International Accounting Standards. In 2002 was adopted the Order 306 which was applied by the entities who do not fulfilled the criteria to apply Order no. 94/2001. They had to prepare the financial situations harmonized with the European Directives, according to the Order 306/2002. [3]

Starting with 2004, there was a clear separation between the two domains. The Law no. 571/2003 was applied by the companies, the Fiscal Code. Now, the taxation has its own regulations. Therefore, starting with this year, each one of the two, taxation and accounting, must respect their regulations. (Fiscal Code for taxation and Order no. 1752 of 2005, replaced by Order no. 3055 of 2009 and replaced by Order 1802 of 2014 for accounting)

Even though the regulations were separated, we can say that the separation was partially, because in practice, there is a concern to reflect a fiscal image better than a fair image and this aspect is a result of the Soviet influence that has been applied on Romanian accounting for more than 50 years.

### **3. Objectives of the two areas**

Nowadays the accounting and taxation have completely different objectives.

Through accounting the companies are monitoring all their transactions. Thus, applying the accounting principles, the company can find which were its performances on a specified period of time, which is its financial position, if the business is profitable or not, what should be improve, or what should be developed.

Accounting objective is to present a true and fair view of the financial performance and financial position of the companies, for presenting real information to all categories of users: investors, employees, creditors,

suppliers, costumers, the state and the audience.

The true and fair view is important for the company itself too, because based on the annual financial situations the company could analyze and assess its position on the market in relation to other companies, determining what should be improved or developed in its activities. So, if the annual financial situations reflect the real image of a company, all the users, but also the company itself can monitor and improve its activities and the market activities can develop.

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 is the domain which handles this aspect.

The taxes are on different types or sizes, depending on the income obtained by the persons.

Taxation objective is 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.

### **4. Professional bodies in accounting and in taxation**

As we could see above, the accounting and taxation have different objectives. So, there was a need to separate the profession of chartered accountant of the profession of tax advisory.

After the fall of the communism, the Body of Chartered Certified Accountants and Authorized Accountants of Romania (CECCAR) was recreated, in 1992, after a break of approximately 40 years. So, to exercise the profession of chartered accountant or authorized accountant the accountants need to register as members of CECCAR.

Until 2001, according to the Government Ordinance no. 65 of 1994, the chartered accountants could perform work of fiscal type. [4]

Starting with 2001, once the Government Ordinance no. 71 regarding the organization



and exercising the activity of tax advisory entered into force, the article from the Ordinance no. 65 of 1994, which allowed the chartered accountants to perform work of fiscal type, was repealed.

This is the moment when the two professions were separated.

Applying the Ordinance no. 71 of 2001, appear the profession of tax advisory.

In 2007, the Chamber of Tax Consultants was created.

The law number 149 of 2013 brings some clear provisions regarding the separation between the two professions. According to this law, the tax advisories can practice the profession of chartered accountant only if they register as members in the organizations that coordinate these professions. Also, the persons who have the quality of chartered accountant could exercise the tax advisory profession, after they register as members in the organizations that coordinate these professions. [5]

The knowledge and proper application of International Financial Reporting Standards, of national accounting rules and principles, as well as understanding and respecting the entity's accounting policies, the presentation of a true and fair, correct and complete financial position and performance of an entity is the exclusive merit of the chartered accountants. The knowledge and application of relevant domestic and international tax rules, the provisions of double taxation agreements and the ability to provide solutions to any problem of fiscal nature of the client is the exclusive merit of the tax advisories. [6]

## **5. The interaction between fiscal regulations and accounting regulations**

As we could see above, the fiscal regulations are different from the accounting regulations, starting with the year 2004.

Nowadays, for taxation the companies apply Law no. 571 of 2003, and for accounting they apply Order no. 1802 of 2014.

Before the apparition of the Law no. 571 of 2003, there existed lots of laws for each fiscal issue. There was a real disorganization through the fiscal laws.

To organize the fiscal laws, the professionals proposed the writing of a fiscal

code. Thus, in 2003 is issued the Fiscal Code. Now all the fiscal issues were included in one law. The work of the professionals was simplified. However, over time, there were lots of legislative changes regarding the Fiscal Code, which made it harder to analyze the fiscal issues.

The professionals who worked on the issue of the Fiscal Code were declaring that they have wanted that the fiscal legislation to be predictable, by introducing the rule for changes to be announced at least 6 months before entering into force. But in the law text it was introduced the word “usually”, which permitted various times the hastily changes on the fiscal regulation. In 10 years from the issuing, the Fiscal Code was modified for more than 100 times, there appeared more than 100 new articles and only 25 articles remain unchanged. [7]

Regarding the accounting regulations, the companies apply the Order 1802 of 2014 starting with the 1<sup>st</sup> of January 2015. This replaced the Order 3055 of 2009.

The new Order was issued based on the adoption of Directive 2013/34 / EU of the European Parliament and of the Council on the annual financial statements, consolidated financial statements and related reports of certain types of companies. As Romania is a member of the European Union and the information must be comparable at the international level, it was necessary to be issued the new order.

So there were introduced new criteria for establishing the size of companies, some new accounts, some new definitions and classifications.

Further it is analyzed the interaction between the two areas, taxation and accounting, at the regulation level.

Analyzing the Fiscal Code [8] we can see that there are some articles which refer to the accounting regulations.

The most obvious interaction between accounting and taxation could be seen from article no. 19 from the Fiscal Code, ‘General Rules’ for the calculation of the profit tax. In this article it is specified the calculation method. Thus, the difference between all the incomes of a company and the expenses incurred for the purpose of earning the incomes, from a fiscal year, from which are deducted non-taxable incomes and are added

non-deductible expenses is named taxable profit.

Analyzing the fiscal rules we can say that the difference between all the incomes of a company and the expenses incurred for the purpose of earning the incomes means the difference between the sums from 7<sup>th</sup> class from the General Chart of Account existent in the trial balance of a company from a fiscal year and the 6<sup>th</sup> class from the General Chart of Account existent in the trial balance of a company. So we can say that the computation of the taxable profit is dependent on the accounting profit. But, of course this is only an interpretation of the taxation rules. To see the explanation of the taxation rules for the computation of the taxable profit it must be analyzed further the Norms of the article 19.

It can be seen that in the Norms it is clearly specified that the incomes and expenses which are taken into account in determining the taxable profit are those registered in accounting according to the accounting rules from the Accounting Law no. 82/1991, with subsequent amendments.

This is a clear proof that the taxation rules are connected to the accounting rules, more specifically, the taxation rules are dependent on the accounting rules.

Another article in which we can see the connection of the taxation on the accounting is article 48 from the Fiscal Code ‘General rules for assessment of net annual income from independent activities determined in real system, based on the accounting data’. Net income from independent activities is determined in real system, based on the accounting data, as the difference between the gross income and the deductible expenses incurred for the realization of the income. Thus this is another proof that the accounting data are important for computing the income tax for independent activities.

Article 253 ‘Computing the tax due by the juridical persons’ (Title IX from Fiscal Code), is another article which refer to the accounting regulations. According to this, if a building was revalued in accordance with the accounting regulations, taxable value is the accounting value of the building after revaluation, recorded as such in the accounts owner - legal entity.

On the other hand, analyzing the Order 1802 of 2014 [9], we could see some

mentions that emphasizes the idea of dependency between the two areas. For example, at point 63, line 4, it is specified that for changes in the accounting policies for a previous period, the entities should take into account the fiscal effects of those changes. This is an emphasis of the idea that taxation is dependent of accounting. Therefore, if the accounting policies for a previous period are changed, some accounting data are changing. The taxes are computed based on the accounting data, as we could see above, so there is quite possible to have fiscal effects from the changes.

## 6. Conclusions

Romanian history contributed strongly to the evolution of both, the accounting and taxation. Even in our days, it can be felt the effects of the communist influence, on the relation of the two areas. So, it is hard to remove the influence on the relation between the two areas of the strongly connection of taxation and accounting from the period in which Romania was under the communist influence.

After the fall of the communism the professionals tried to separate the taxation and accounting, based on the fact that they are different objectives. So, there were issued different regulations for both of the two areas, the professions were separated, and appear different professional bodies for the taxation and for the accounting.

Analyzing the regulations from the taxation domain and those from the accounting domain, 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. Moreover, if the accounting data are mistaken, the taxes will be mistaken, because are computed based on some data which are incorrect. This is way, it is desired that the accounting and taxation to be independent. Of course, they should be independent, but they should interact together.

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## Exiting the Unconventional Monetary Policies

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### Abstract

*Unconventional monetary policies have provided the financial sector with the time needed to implement the necessary reforms, but it is unclear how useful they were to support the economic activity. From this point of view, perhaps the most important lesson of the crisis is that there is a real need for a resilient financial system and the path to that is appropriate regulation. Exiting the PMN is hampered by the fact that it is difficult to estimate when benefits of these policies will be dominated by induced risks. Subsequently, it is needed to compare the effects of an early exit vs. a late one, which means making a choice between reducing the risk of inflation in the future (early exit) and supporting growth (late exit). Return to normality will imply two courses of action: the normalization of the policy rate and of the size of central banks' balance sheet.*

**Key words:** unconventional monetary policies, policy rate, inflation, economic growth

**JEL Classification:** E42, E52, E58

### 1. Introduction

In response to the 2008 crisis, major central banks have adopted a series of unconventional monetary policies (PMN) in order to revive the economic activity. Specifically, these policies aimed to offer further support to consumption by reducing interest rates or by injecting liquidity into banks in order for the latter to restart lending. PMN manifested in many forms, but it is possible to identify three main categories: policies aimed at transmitting signals, policies aimed at providing liquidity and policies aimed at purchasing assets. The consensus in the literature is that they have helped the banking systems and financial

markets, which had become heavily fragmented, but also that they have drawbacks that require a return to normality as earliest as possible. Therefore, in what follows, I will focus on a couple of aspects related to the exit from these policies.

### 2. About identifying the right moment of exit

The first problem to be solved in the process of exiting the PMN is to identify the right timing, by reference either to economic growth or the size of externalities created by such policies. However, it is difficult to estimate when the benefits of these policies will be dominated by the induced risks. [1] [2] The situation is delicate, as the mix of low interest rates and purchases of government bonds have contributed significantly to the sustainability of public debts. The government need of funding was satisfied directly by buying securities and the debt service has been reduced due to reduced interest costs paid. Moreover, the government is the shareholder who enjoys most of the profits made by the central bank as a result of the issuance of currency through its consistent taxation. For example, in United States (US), after the central bank shareholders (which are private) receive an annual dividend of 6%, the remaining profit goes to the treasury. In case of exiting the PMN, clearly these benefits will disappear, which would call into question the ability of the issuers of those securities to honor debts and also will increase the costs of refinancing and new financing. The central bank thus reached a situation where it is not about choosing between right and wrong, but rather choosing the lesser evil between the withdrawal of support offered by purchases of government bonds or a possible higher inflation in the future. This state of affairs is known as fiscal dominance. The only real way out of it would be to implement

measures that will balance the national budgets. But because these measures are unpopular, the chances that they will be implemented are reduced.

Another factor to be considered is whether the exit from these policies needs to be done sooner or later. In conventional terms, one of the advantages of the inflation targeting regime is that it shows unequivocally that the central bank is more effective in controlling inflation than in supporting growth. [3] From a practical standpoint, the decision to exit is equivalent to a choice between reducing the risk of inflation in the future (early exit) and supporting growth (late exit). Together, the two points of view recommend an early exit. However, the experience of 2010 showed that an early exit from PMN proved to be a mistake, which hindered economic recovery in the European Union (EU). In contrast, in the US, where PMN were kept for a longer period of time, there has been growth, so the gap between actual and potential GDP decreased. Moreover, the recent announcement by the European Central Bank (ECB) that will buy assets worth EUR 1 trillion shows that, at least in Europe, we cannot speak of an early exit. Moreover, the exit is more problematic for the ECB than for the Federal Reserve Bank (FED) as the EU members will be affected differently. Moreover, the monetary policy in the EU has ended up being more restrictive in the periphery than in the center, because of the effect that government bond yields had on banking costs. [4]

Those mentioned in the previous paragraph show that keeping these policies on long-term would help the economic activity, but this needs to be weighed against the risks that the mix of cheap equity and low interest rates involve. To recipient countries that receive funds as a result of PMN, the most well-known is the risk of exchange rate volatility. If it moves away from the equilibrium level in the sense that it appreciates without support from the economic conditions, there will be problems for exporters and this will stimulate foreign currency lending. For investors, this surplus of resources can lead to risky investment decisions, excessive use of leverage to achieve greater profitability etc. Moreover, the prospects of withdrawal the support

offered by PMN were not received well by the emerging economies, which have identified possible negative effects, while advanced economies replied that the firsts were supposed to use this opportunity to correct the internal imbalances. These differences have created tensions which showed that an unwritten rule is still in effect: national priorities prevail over international ones. Most likely, the exit from PMN will cause a reversal of capital flows to the countries that are exiting and an increase in borrowing costs of countries that have not implemented PMN. The impact of this reversal is dependent on the efficiency of financial markets which tends to be lower in developing economies that have received significant capital inflows in the recent past. This may prove disadvantageous for these countries as they will face increasing costs on their bonds. Certainly the most important factor will be how resilient these economies will be in facing market volatility and capital flows. [5]

Broadly speaking, we can say that the exit should be made when the financial system can be considered stabilized. A sign of this would be an increasingly reduced usage of the various financing facilities provided by central banks. Another might be an acceptable level of the output gap and inflation forecast in line with the target. However, according to the IMF, the Phillips curve is flat in the present circumstances and this raises the question if inflation targeting can still be used and whether it wouldn't be better to monitor the output instead of the inflation. [6] From this point of view, one can speak of a PMN exit only in the US. In Europe, the only alternative at this point is to continue these policies, which is what happened.

### **3. How should the exit look?**

The exit covers two courses of action: normalization of the policy rate and of the size of the balance sheet of central banks that bought assets. It is important to note that both measures are contractionary, i.e. they are assimilated to a tightening of monetary policy. In addition, there is the problem of time inconsistency of monetary policy, which in the present context may cause traders to anticipate a tightening of the monetary policy

faster than desired. In this sense, one can see the episode from 2013, when Ben Bernanke, the Fed chairman at that time discussed the possibility of halting purchases of assets (tapper talk). Although he did not mentioned anything related to the policy rate, on the market the interest rates have grown.

PMN significantly altered central banks' balance sheets. The place of assets with low maturity and risk was taken by riskier assets with long maturities, as part of qualitative easing. With this occasion, the FED has become the lender of last resort not only to banks, as the theory says, but also to entities outside the banking sector, thus playing also a fiscal role, as supporting by governmental entities is normally the job of the Treasury (Ministry of Finance).

According to accounting principles, any reduction of the assets part involves a similar reduction of the liabilities. The central bank liabilities comprise those elements that form the monetary base so the analysis of reducing the balance sheet should start with identifying the normal size of the monetary base. Unfortunately, a clear answer in this regard can be given only empirically, so the developments in economic activity at different levels of the monetary base should be monitored and act accordingly.

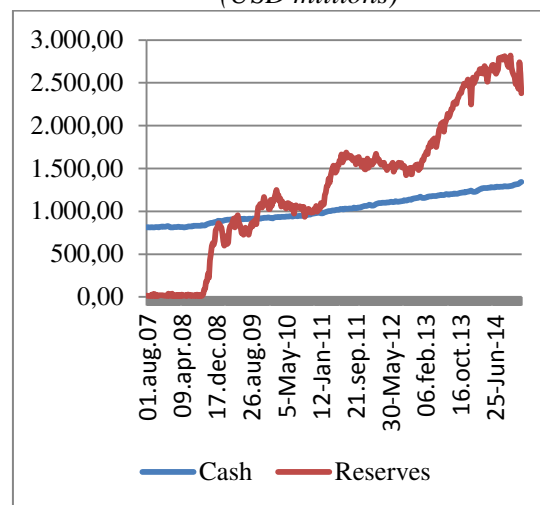
In a simplified form, the central bank's balance sheet looks like the table below:

Table 1. Simplified balance sheet of the central bank

Assets	Liabilities
Bonds	Cash
Loans and other similar operations	Bank Reserves
Other assets	Other liabilities
	Equity

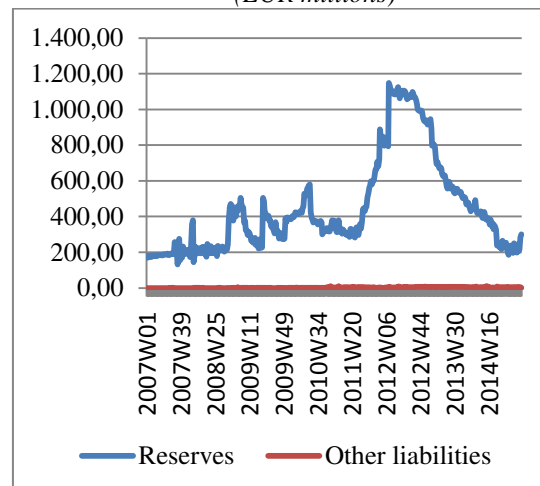
In an attempt to boost lending, the central bank may increase its holdings of securities, offsetting with an increase in bank reserves and thus creating excess liquidity. Unfortunately, banks cannot be forced to lend and this combined with an environment perceived as risky and low interest rates minimizes the opportunity costs incurred by banks and thus their preference is to preserve liquidity, as can be seen in the charts below:

Figure 1. Bank reserves held at the FED (USD millions)



Source: FED, author's computations

Figure 2. Bank reserves held at the ECB (EUR millions)



Source: ECB, author's computations

The lack of viable lending opportunities will keep the bank reserves at high levels on an at least average time horizon, which will further hinder the process of reducing the liabilities of the central bank. In this context, one of the few positive aspects that can be identified is that the current level of reserves is not a threat to inflation, for the simple reason that they will be used.

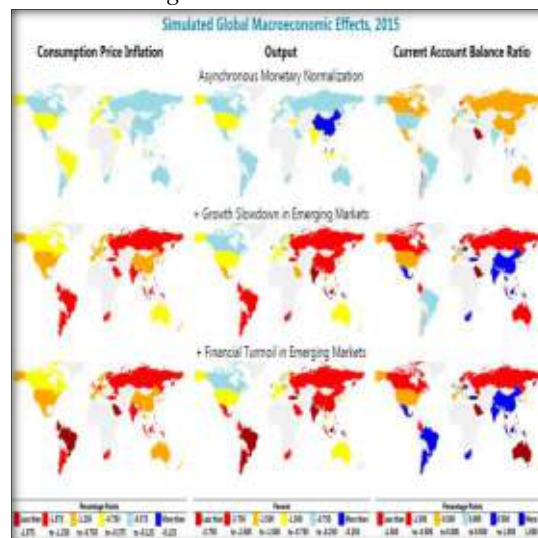
Reducing the balance sheet could start in the first instance by stopping the reinvestment of money obtained from the sale of securities that reached maturity. If this proves ineffective due to the requirement to keep the securities' portfolio until they reach maturity, a decrease of the reserves in the banking system might be made by remunerating them. This remuneration

should be high enough to cover the potential income that banks could obtain from the loaning activity, so it will act as an incentive to discourage their use. In this context, however, commercial banks can earn a free profit by simply keeping these reserves at the central bank, which translates into costs for the latter. Simultaneously, it creates a bizarre situation: the central bank intervened and cleaned the commercial banks' balance sheets and then it pays interest on the resources it has made available to them. From this perspective, perhaps it would be more appropriate that the remuneration of reserves is replaced by a raise of the reserve requirements. However, we should not overlook that reducing the amount of assets that central banks hold could shatter the confidence in them which was given by the initial purchases of these securities. Consequently, interest attached to them could rise steeply.

The normalization of the policy rate involves raising it. This raise would cause a reduction in the revenue of the owners of assets that earn fixed revenue. For financial intermediaries, this opportunity cost could be covered by interest incomes or through other sources of income growth, such as raising fees. Furthermore, banks could assess the interest rate risk to be higher, which leads to a higher credit risk, with negative impact on lending.

The IMF has developed three scenarios for exiting the PMN: first, it considers that monetary policy in the US and England is normalized, while in the euro area and Japan remains unchanged; secondly, it adds the hypothesis of slow growth in emerging economies and thirdly, it takes into account additional financial problems which might confront these economies. [7] The model results show a decline in GDP of 4.2 per cent in vulnerable emerging economies, 2.8 per cent in other emerging economies, 1.3 per cent in "safe haven" countries and 0.9 per cent in the advanced economies. On the short term, the declines in GDP cause a lower inflation, including the euro area and Japan. Graphically, the test results are shown below:

Figure 3. IMF estimations



Source: WEO 2014, IMF

#### 4. Conclusions

PMN were useful because they offer time to the financial sector to implement the necessary reforms, but it is unclear how useful they were to support economic activity. From this point of view, perhaps the most important lesson of the crisis is that there is the need for a resilient financial system and the path to this goal is appropriate regulation. The implementation of these policies shows that inflation targeting regime suffers from a number of major vulnerabilities. Recent evidence confirms that, although it has benefits, this regime has led to a situation where the policy rate is almost zero, which limits the central bank's ability to stimulate the economy and also did not prevent economic bubbles.

Exiting the PMN is hampered by the fact that it is difficult to estimate when the benefits of these policies will be dominated by the induced risks. Subsequently, it is needed to compare the effects of early exit and a late one, which means making a choice between reducing the risk of inflation in the future (early exit) and supporting growth (late exit). The only certainty at this time is that the ECB's exit will be more difficult, because EU members will be affected differently by the exit from the PMN.

The return to normality will imply two courses of action: the normalization of the policy rate and of the size of the balance sheet of central banks which bought assets. It is important to note that both measures are

contractionary i.e. they are assimilated to a tightening of monetary policy. In terms of reducing the central bank balance sheet, the process must start from identifying the normal size of the monetary base. Unfortunately, a clear answer in this regard can be given only empirically, so the developments in economic activity at different levels of the monetary base should be monitored and act accordingly. The normalization of the policy rate will cause a reduction in the revenue of those who own assets that earn fixed revenue. According to some authors, it is possible that banks will assess the credit risk higher because of rising interest rates.

Overall, how to exit the PMN is still unknown and it is likely that it will be as innovative as these policies were.

## 5. Acknowledgements

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# The Current Situation of the Public External Audit Activity in Romania and Proposals for Improving the Activity

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## Abstract

*In order to create a clear and true picture of how the public external audit is implemented in Romania, we will see the evolution of how this type of audit was approached by the responsible institutions. Also in the paper, we will contribute with proposals for improving the external public audit activity in the current stage.*

**Keywords:** public external audit, performance audit, financial audit

**J.E.L Classification:** G29, M42

## 1. Introduction

In most countries of the world, the formation and use of public resources is audited by the bodies working next to the Parliament, so outside the Government which manages the funds. In Romania, the body exercising the public external audit is the Court of Auditors, which is organized and operated under the provisions of art. 140 of the Constitution and Law no. 94/1992, modified and completed by Law no. 217 in 2008.

The reality of all the world's countries shows that the most credible certification of the financial reports from the public sector belongs to some state institutions, commonly known under the generic name of Supreme Audit Institutions (SAI) established under the constitution provisions or organizational and operational laws, which guarantee their independence.

The state supreme audit exists for centuries, in one form or another, in most European Union states.

## 2. Romania's Court of Accounts - external supreme audit institution of the public funds

The Accounts Court forms part of the fundamental institutions of the state and represents the manner in which the legislative power is involved in the protecting and efficiency activities of public funds by supervising the executive in the budgetary execution, in the separation of state powers. The significant changes made in the public sector, also had an impact on this institution. The most significant changes that have occurred in the organization and functioning of the institution were:

- the transfer of the preventive financial control which is exerted by the Court at the level of the main loan managers of the state budget, at the Ministry of Public Finance;
- abolition of judicial structure, which took place in 2003 following the constitutional amendments;
- focusing on audit work to the detriment of control, following the last legislative change in 2008.

Court of Accounts operate autonomously and represent Romania in its capacity as supreme audit institution in the international organizations of such institutions.

Verifications are made by the Court of Accounts through external public audit procedures set out in its own audit standards, elaborated in accordance with the generally accepted international standards.

The attributions of the Accounts Court, resulting from section 2 of Law no. 217/2008 are:

- the financial audit;
- the performance audit;
- the control, including the authorities with responsibility for privatization.

If by the end of 2008 the institution's activity was focused on financial control, with the adoption of Law no. 217/2008, the control occupies a small share compared with

the audit work. The overgrowth of the audit activity in relation to the control one, we believe it is too early because in our country the receptivity to the protection of public money does not properly take place in the individual or collective political culture. Replacing the sanctions or ordering the payment of the damages found by making recommendations regarding the proper management of the public funds is not fully adapted to the realities of our country. Certainly, it takes time for those responsible for managing public funds to understand the role and importance of this evolved form of control.

Through the checks carried out, the Court aims at [1] :

- the accurateness and the reality of the financial statements, as they are established in the current accounting rules;
- the evaluation of the management and control systems at the authorities with tasks regarding the financial obligations to the budgets or to other public funds established by law, natural or legal persons;
- the use of the funds from the budget or from other special funds, according to their established destination;
- the quality of the economic and financial management;
- the economy, efficiency and effectiveness of using the public funds.

### **3. Forms of existing external audit in practice of the Romania Court of Accounts**

The financial audit is the activity which seeks if the financial statements of the public entities verified are complete, accurate and in compliance with laws and regulations in force; in this regard it will be issued an opinion. The financial audit of the Accounts Court is performed over the execution accounts for concluded management periods.

If by the end of 2008, the Accounts Court exercised mainly the financial control subsequent over the concluded execution accounts of the public institutions and granted management discharge to the credit officers whose execution accounts were accurate and real, since 2009, the Court exercises financial audit over the accounts

concluded by issuing a certificate of conformity for the accounts that meet the legal requirements.

In the attempt to modernize and align to the European practices, the Accounts Court has made a big leap in quality by legislating and implementing the financial audit, but harnessing the findings was not carried through, since the concept of management discharge can no longer be found amongst the Court's attributions, nor amongst those of other public authorities. As a concept, the management discharge is indisputable, it being applied ever since the time of Cuza. [2]

We must admit, however, that due to the legislative ambiguity of the period 1992-2008, this concept of management discharge has turned into an ineffective instrument since the credit officers were not punished when the management discharge was not granted. This does not mean that this instrument should be abolished, but that the legislature needs to bend over the concept in order to find a reasonable solution in the practical activity, otherwise the effort to improve the public finances becomes ineffective.

Our proposal is to reintroduce the concept of management discharge, but the power to grant it must be passed between the attributions of the central or local organs which mandate the credit officers with the administration of public funds, respectively the Parliament for the Government and the local councils for the main managers of the local budgets. Of course, the management discharge should be granted only on the basis of the certificate of conformity issued by the Court, the sole authority which has appropriate techniques and methods necessary for a good external audit. Also the management discharge should be granted only to the main credit officers that would have to answer for the accuracy of the secondary and tertiary officers accounts that are under their authority. This would be consistent with the principle of managerial accountability; the main officers being those who are required to ensure the operational level from their suborder, with effective activities and internal control procedures.

The measures and recommendations issued following the financial audit missions should be undertaken by a specialized commission from the Parliament (for

example a Public Accounts Commission), or by the local councils in the case of the administrative-territorial units, analyzed and then forwarded for implementation to the main credit officers. In this way, sanctions for mismanagement of public funds can take various forms, including the withdrawal of political support or funding reduction, and finally it would ensure an increase in the financial discipline.

The first president of the reinstated Accounts Court from Romania righteously signaled that: “traditionally, most SAIs have exercised their functions through controls that have focused on government spending, aiming at their compliance with various laws and regulations. However in recent years, some SAIs have directed their controls over the economy and efficiency of the governmental operations, these also being known as performance control”. [3]

The performance audit is an attribute of all the European Supreme Audit Institutions, except Greece.

The introduction of the performance audit amongst the main attributions of the Accounts Court of Romania is relatively recent. The regulatory framework is based on Article 26 from the recent Law 217/2008, modifying and completing the Law on the organization and functioning of the Court of Accounts of Romania, which states: "The Court of Accounts carries out the performance audit of the use of the state's and of the public sector's financial resources. The Accounts Court carries out an independent evaluation on how the economy, efficiency and effectiveness with which a public entity, a program, a project, a process or an activity uses the public resources allocated for the objectives set. "

This new type of audit is explained in paragraph 40 of the content of the international auditing standards INTOSAI, where it is specified that it refers to the examination of the economy, efficiency and effectiveness, and includes:

- the audit of the savings achieved in the administrative activities in accordance with healthy administrative principles and practices and a good management policy;
- the audit of the efficient use of the human, financial and other resources, including the examination of the

informational systems, of the performance and control measures and of the procedures followed by the controlled entities in order to remedy deficiencies;

- the audit of the effectiveness of the results regarding achieving the verified entity's objectives and the audit of the actual impact of the activities compared with the intended impact.

We can say that the performance audit is an independent and objective analysis activity that evaluated the way the entities that use public funds comply with the principles of economy, efficiency and effectiveness, and on this basis provides recommendations for mitigating the cost of the resources or increases results.

Both the legislative and executive power and also the public entities need information provided by the performance audit, because they show how programs, projects, or activities audited achieved their programmed objectives in terms of efficiency. When programs or activities of public entities were not realized under the programmed conditions, the causes that led to the situation are established and recommendations to improve performance are made.

In fact, performance is the only chance that Romania has in terms of reducing the disparities that still separates it from the developed countries; it is the only way for superior valorization of the resources, whatever their nature.

Regrettably is the fact that in the current stage, the number of performance audit shares conducted by the Supreme Audit Institution is particularly low, although there is now a clear mandate of the Accounts Court in this direction.

As a novelty, the current legal framework provides in the art. 26, paragraph 3, that the performance audit may be also conducted "during the development of the projects, programs, processes or activities" and not only at their end, as it was the case before. This is a competence that should be exploited by the Court, but we believe that the legal regulation could be improved in the sense that they could also introduce the performance audit of ex-ante type. The European Union has a practice in this area in countries such as Germany, bringing substantial benefits. By conducting such an audit, which is started before checking the

costs, the opportunities would be better exploited and it would prevent a number of inefficient spending.

At the same time there are countries where the performance audit has expanded its scope. We concluded that in addition to controlling the "3E" (economy, efficiency, effectiveness) in the future it should be considered other criteria that would define the performance of using the public resources:

- the efficiency of using the environmental resources, especially when in achieving the economic activities environmental resources are affected;
- the ethic of realizing some public expenditure, which should be sought if the resources allocated to certain activities are enough or not and if they meet the needs of the beneficiaries and if the access to these activities is equitable.

The performance audit, the most modern and efficient form of audit results-oriented, must occupy a larger share in the external public audit activity, as it provides a better use of the financial resources available to public entities. If until now the performance audit was exercised only ex-post, through the new law it is given the opportunity to undertake audit actions during the development of the programs, projects, processes or activities.

It is an important skill that should be exploited by the Court of Accounts, but our belief is that the legal regulation could be improved for the introduction of the performance audit of ex-ante type, a common practice which is used in the case of countries like Germany and the Netherlands.

Focusing, in the case of the performance audit, on the preventive side of it, can preclude wastage of public money, negligence, any damages or deficiencies through making responsible the public entities, or their leaders, in the commitment and the spending of public funds.

Our belief is that only the performance audit alone cannot perform the financial management of the entities. The practice of the Accounts Court of performing financial audit and performance audit in separate missions seems to us as not being adapted to the current requirements. It is necessary that the two essential forms, namely the financial and performance audit to be carried out in the

same mission, in order to assess the activity being audited overall.

Combining the two forms of audit in the same mission in order to achieve the overall assessment of the activity or program audited, both in terms of legality and performance of using the public funds, should become a priority of the Accounts Court, which is currently performing either only financial audit missions or only performance audit missions.

#### 4. Conclusions

The external public audit looks at the forming and using way in terms of legality and performance of the public funds, ensuring transparency by providing credible information to third parties regarding the financial statements of the public entities.

The public external audit takes the following forms:

- **financial audit**, which is exerted upon the execution accounts for management periods concluded, and aims if the financial statements of the audited entities are complete, accurate and in compliance with laws and regulations in force;
- **performance audit**, which is an independent and objective analysis and evaluation activity of how the entities that use public funds comply with the principles of economy, efficiency and effectiveness, and on this basis it provides recommendations for mitigating the resources cost or to increase results .

Essentially, we consider that the public external audit exerted by the Court of Accounts represents:

- for the Parliament - a guarantee that the adopted laws on public finances are put in practice, and the public money are managed effectively;
- for the Government - a correction leverage for the financial and fiscal policies adopted and for guiding resources towards effective programs;
- for the public entities - a tool for preventing some shortcomings in the financial, analysis and assessment domain and to evaluate the training method and the use of the resources made available;

for taxpayers - a guarantee over the proper use of the nation's funds. [4]

Through the new legal framework the activity of the Court of Accounts focuses on the financial and performance audit and in a lesser extent on control, particularly in the privatization area.

We believe that the decrease in control and increase in the audit activity is too early because in our country the receptivity to protecting the public money does not appropriately take part in the individual political culture.

The symbiosis between the two fundamental types of audit must become a matter of professional judgment and opportunity.

A new vision is needed over the concept and operationalization of the public external audit. The targets projected by the state and by the public entities cannot be achieved without an efficient and effective integrated audit, able to identify deviations from the established performances and to make recommendations for their adjustment.

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## Changes in Conservatism after the Adoption of the IFRS: Evidence from Romania

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### Abstract

*Starting with 2012, the Romanian entities had to comply with international regulation in reporting their individual financial statements. As a fact, several elements could have been changed, including their level of conservatism. The purpose of this research is to provide evidence about the level of conservatism that the Romanian entities have considering their size, their market to book ratio (MBR) and their level of indebtedness after the adoption of the new regulation. The research is conducted on panel data models, using a four year period of time for estimation. The results show that for MBR and for indebtedness indicator, the entities have higher good news timeliness, while for size and for indebtedness variables they have higher asymmetric timeliness after the adoption of the International Financial Reporting Standards (IFRS).*

**Key words:** Conservatism, Romania, IFRS, good news timeliness, higher asymmetric timeliness.

**J.E.L Classification:** M20, M41

### 1. Introduction

The adoption of the International Financial Reporting Standards (IFRS) is considered to bring higher accounting quality and more transparency in reporting [1]. As a fact, even though the way the entities report their individual financial statements can be managed for, they can still decide what kind

of behaviour they adopt: a flexible one, where the level of conservatism is low or a more conservative behaviour [2]. By a conservatism behaviour, a company will recognize all losses and will not recognize its gains [3,p.110]. Consequently, there is going to be a higher asymmetry between the recognition of losses and the recognition of gains [4]. Moreover, the level of conservatism is correlated with the timely loss recognition, which is based on the fact that entities acknowledge their losses when they appear and not on several periods of time.

Based on these, the purpose of this research is to detect if the level of conservatism has changed considering the switch from national to international accounting regulation.

The rest of the paper is structured in several sections. The first section presents the literature review of some research papers that have been done so far, the second section focuses on the methodology of research, while the third section reports the results of the research. The article ends with conclusions and provides both the limitation of the research and other ways of improving it.

### 2. Literature review

In the main literature, there are lots of research studies that deal with the degree of conservatism when a switch from national regulation to the international one, measured through the IFRS standards, is encountered. First of all, the conservatism is considered to be an efficient way of reporting when the entities don't have contracting activities [5].

Moreover, the conservatism can mitigate the conflicts that can arise between several stakeholders [5,6] as their information is asymmetric and it is a tool for reducing the moral hazard [7]

There is also evidence that the degree of conservatism can improve the efficiency of the capital market. It has to be acknowledged that the improvements are due to the conditional conservatism [8]. Opposite to this effect, is the effect related with is the level of unconditional conservatism [9].

The level of conservatism is deeply correlated with the entity's economic environment [10, 11, 12].

Most of the studies are conducted on US market, rather than on European market. The results prove that the trend is a declining in the level of conservatism after the adoption of the IFRS [13, 14].

Considering the variables that are related with the degree of conservatism, the size of the entities is rather an important one. Larger firms tend to have higher asymmetric timeliness as they recognize losses earlier than gains [15, 16].

Moreover, growth firms tend to have less good news timeliness and higher asymmetric timeliness as the degree of conservatism is also affected by other variables [15, 17, 18].

Regarding the degree of indebtedness that the entities have, higher their leverage is lower their degree of conservatism is [15, 19].

Considering these, we aim to identify the degree of conservatism for Romanian entities after the adoption of IFRS as accounting measure.

### 3. Methodology of research

The purpose of our research is to provide evidence about the degree of conservatism that Romanian entities have after they have to adopt the IFRS as the accounting measure. In fact, we aim to detect the influence of three indicators on the level of conservatism. These indicators are the size of the company, the market to book ratio and the level of indebtedness that the entity has.

In order to achieve this objective, we have firstly selected our sample. The initial sample had 71 companies considering the recommendations of the Romanian Supervision Authority. After that, we excluded 8 companies that have a negative

value of their own capital, 4 companies that were listed in 2013 or that had to comply with the regulation from 2013, one company that is trading bonds, one company that has another way of reporting and two companies that were in insolvency between 2010 and 2012. As a fact, our sample consists of 54 companies.

For each entity that is included into the analysis, we collected financial information such as: the value of total assets, the value of total debts and the value of own capital, the value of net profit and the price and the number of shares that each entity has at the end of the year. Moreover, we used the annual return computed 9 months prior to 3 months after the end of the fiscal year. The data is collected for 2010-2013. The period is selected in order to have equal observations for both the national and the international accounting framework. As a fact, the data from 2010 and 2011 are computed using the national accounting framework, while the data from 2012 and 2013 are computed using the international accounting framework.

The analysis is conducted on panel data models. The selection of the model took into account if the model with fixed effects is a better estimator than the model with no effects (pool panel data model) or if the random approach is both consistent and efficient, that means that is a better estimator than the fixed panel data model. For the first situation, we perform the redundant fixed effects test, while for the second situation, we used the Hausman test. The redundant fixed effects test has the null hypothesis that the fixed effects are equal to each other, without any difference between them. The Hausman test has the null hypotheses that both the random effect and the fixed effect model are consistent estimators, but the random effect model is also efficient. By consistency we refer to the fact that while we increase the size of a sample, its distribution of the estimator is increasing and it tries to achieve the true value of the parameter. By efficiency, we refer to the fact that an estimator is having the least variance.

Considering these, the model on which we conducted the analysis is presented.

$$EPS_{it} = \beta_0 + \beta_1 \times SIZE_{it} + \beta_2 \times SIZE_{it} \times R_{it} \times POST_{it} + \beta_3 \times SIZE_{it} \times DR_{it} \times POST_{it} + \beta_4 \times SIZE_{it} \times R_{it} \times DR_{it} \times POST_{it} + \varepsilon_i$$

$$EPS_{it} = \beta_0 + \beta_1 \times MBR_{it} + \beta_2 \times MBR_{it} \times R_{it} \times POST_{it} + \beta_3 \times MBR_{it} \times DR_{it} \times POST_{it} + \beta_4 \times MBR_{it} \times R_{it} \times DR_{it} \times POST_{it} + \varepsilon_i$$

$$EPS_{it} = \beta_0 + \beta_1 \times LEV_{it} + \beta_2 \times LEV_{it} \times R_{it} \times POST_{it} + \beta_3 \times LEV_{it} \times DR_{it} \times POST_{it} + \beta_4 \times LEV_{it} \times R_{it} \times DR_{it} \times POST_{it} + \varepsilon_i$$

Where

EPS is the earnings per share, scaled by the beginning of the year stock price

Size is the size of the company, measured by the natural logarithm of total assets

MBR is the market to book ratio at the end of the year

LEV is the indebtedness indicator and is computed as the ratio between total debts and the value of own capital

R is the annual return computed 9 months prior to 3 months after the end of the fiscal year.

DR is a dummy variable that takes value one if the annual return is negative and zero otherwise.

i is the index for company

t is the index for time

In order to conduct the analysis, we develop several hypothesis of research:

H1: Larger firms are less conservative after the adoption of IFRS.

H2: Growth firms that have a higher MBR are more conservative after the adoption of the IFRS.

H3: Levered firms are less conservative after the adoption of the IFRS.

#### 4. Results and discussions

In order to provide evidence about the degree of conservatism that Romanian entities have after the adoption of the IFRS, we implemented three models. As we wanted to avoid the problems of multi-collinearity, we

firstly presented the correlation matrix. The results are shown in Table 1, Table 2 and Table 3.

For an easy understanding we coded:

S as SIZE,

S<sub>R</sub> as SIZE×R×POST,

S<sub>D</sub> as SIZE×DR×POST,

S<sub>RD</sub> as SIZE×R×DR×POST

For MBR ratio we use the symbol M, while for leverage ratio we used the symbol L.

Table 1. The correlation matrix when size is the independent variable

	EPS	S	S <sub>R</sub>	S <sub>D</sub>	S <sub>RD</sub>
EPS	1				
S	0.089	1			
S <sub>R</sub>	-0.019	-0.012	1		
S <sub>D</sub>	-0.032	0.047	-0.40***	1	
S <sub>RD</sub>	0.130*	-0.066	0.460***	-0.74***	1

Source: Author's calculation, Symbols \*\*\* denotes statistically significant at 1%

From Table 1 it can be observed that an the highest correlation is between S<sub>D</sub> and S<sub>RD</sub>, thus we have not included them into the same panel data model. There is also a significant correlation between S<sub>R</sub> and S<sub>D</sub> of -0.4056 and between S<sub>R</sub> and S<sub>RD</sub> of 0.460. The correlations are relevant at 1% level of significance.

Table 2. The correlation matrix when MBR is the independent variable

	EPS	M	M <sub>R</sub>	M <sub>D</sub>	M <sub>RD</sub>
EPS	1				
M	0.044	1			
M <sub>R</sub>	0.113	0.146**	1		
M <sub>D</sub>	-0.137**	0.155**	-0.364***	1	
M <sub>RD</sub>	0.170**	-0.147***	0.415***	-0.742***	1

Source: Author's calculation, Symbols \*\*\* and \*\* denotes statistically significant at 1% and 5%

From Table 2 it can be observed the highest correlation persist between M<sub>D</sub> and M<sub>RD</sub>, the correlation being of -0.7428. There are other important correlations, significant at 1% or at 5%, the highest among them being the correlation between M<sub>R</sub> and M<sub>RD</sub> significant at 1% or at 5%, the highest among



them being the correlation between and of 0.415

Table 3. The correlation matrix when leverage is the independent variable

	EPS	L	$L_R$	$L_D$	$L_{RD}$
EPS	1				
L	-0.264 ***	1			
$L_R$	0.429 ***	0.0756	1		
$L_D$	-0.531 ***	0.555 ***	-0.636 ***	1	
$L_{RD}$	0.453 ***	-0.500 ***	0.712 ***	-0.880 ***	1

Source: Author’s calculation, Symbols \*\*\* denotes statistically significant at 1%

From Table 3, it can be observed that the highest correlation is between  $L_D$  and  $L_{RD}$  as the correlation coefficient is -0.880. Almost all variables are highly correlated, the exception being the correlation between EPS and L, which is of -0.264. There is also a lack of correlation between L and  $L_R$ .

As we have established the correlations between the dependent and the independent variables, we can conduct the analysis.

The results are presented differently for each independent variable. In Table 4 are revealed the results for size of the entity.

Table 4. The results of panel models when size of the company is the independent variable

Element	Model 1	Model 2	Model 3
Constant	-3.699	-3.737	-0.559
S	0.451	0.455	0.075 (p=0.155)
$S_R$	0.001		
$S_D$		0.0009	
$S_{RD}$			0.052**
Redundant fixed ef.	0.054	0.056	0.074
Hausman test	0.568	0.288	0.367
F stat	1.39*	1.39*	2.82*
DW	2.18	2.19	1.44

Source: Author’s calculation, Symbols \*\* and \* denotes statistically significant at 5% and 10%.

From Table 4 it can be concluded that larger entities tend to have higher asymmetric timeliness, as they recognize gains and losses in a different period of time, as the coefficient is statistically different from zero. Considering the other independent variables,

the coefficients are not statistically different from zero. If they were, then the company would recognize their gains earlier, so they will have good news timeliness (we refer to the coefficient of  $S_R$ ). Thus, H1 is accepted, the results being similar with the one found on literature [19,20]

In Table 5, there are the results for MBR.

Table 5. The results of panel models when MBR is the independent variable

Element	Model 1	Model 2	Model 3
Constant	0,286	0,295 ***	0,304 ***
M	-0,443 ***	-0,367 ***	-0,394 ***
$M_R$	0,384 ***		
$M_D$		-0,364 ***	
$M_{RD}$			1,182 ***
Redundant fixed ef.	0,006	0,011	0,008
Hausman test	0,002	0,002	0,001
F stat	1,70***	1,67***	1,76***
DW	2,16	2,25	2,19

Source: Author’s calculation, Symbols \*\*\* denotes statistically significant at 1%.

From Table 5, we can extract several conclusions. First of all, after the adoption of the IFRS, growth firms tend to have good news timeliness as the coefficient of  $M_R$  is statistically significant from zero. The firms continue to have higher asymmetric timeliness as the coefficient of  $M_{RD}$  is statistically significant from zero. The results are similar with the results found in the literature [15,19]. Moreover, we can observe a particularity in this case. The sum of the coefficients  $M_R$  and  $M_{RD}$  is above one which means that the entities decide to recognize loses in a single period of time. A value that is below one suggests that the entities recognize loses among several periods of time. As a fact, H2 is valid.

The last indicator on which the level of conservatism was tested was the ratio. The results are presented in Table 6.

Table 6. The results of panel models when the leverage of the company is the independent variable

Element	Model 1	Model 2	Model 3
Constant	0,1631 ***	0,082 **	0,066 *
$L$	-0,160 ***		
$L_R$	0,322 ***		
$L_D$		-0,228 ***	
$L_{RD}$			0,468 ***
Redundant fixed ef.	0,000 ***	0,004 ***	0,001
Hausman test	0,001 ***	0,979	0,396
F stat	4,54***	3,50	62,64 ***
DW	1,97	1,58	1,46

Source: Author's calculation, Symbols \*\*\*, \*\* and \* denotes statistically significant at 1%, 5% and 10%.

From Table 6, we can observe that higher the levered firm is higher good news timeliness exists. This aspect is seen when we look at the coefficient of  $L_R$ . There is also evidence that firms recognize loses late, so levered firms have less bad news timeliness. We can also observed that firms have higher asymmetry timeliness as the coefficient of  $L_{RD}$  is statistically significantly from zero. If we compare the results found when the MBR ratio is the independent variable and when the leverage ratio is the independent variable, we can conclude that levered firms do not recognize loses on a single period of time, rather they choose to recognize loses on several periods of time. Considering this, it can be said that H3 is valid. We have accepted H3 - levered firms are less conservative [15,19].

## 5. Conclusions

The purpose of this research was to provide evidence about the degree of conservatism that the entities that have to adopt the IFRS as compulsory have. The research looks at the influence of three indicators, the size of the company, the market to book ratio and the leverage of the entity on the degree of conservatism considering the IFRS approach. The research is conducted on panel data

models, using a four time period, that are tested both for redundant fixed effects and for random fixed effects.

The results show that larger firms tend to have higher asymmetric timeliness after the adoption of the IFRS. The other variables are not statistically significant from zero.

Regarding the market to book ratio, the results show that growth firms have both higher good news timeliness and higher asymmetric timeliness, which is also a proof of that the level of conservatism has increased after the adoption of the IFRS. What has to be acknowledged is that those entities recognize their loses in a single period of time, when it occurs, rather than on several periods of time.

The last indicator that we used in the analysis is the level of indebtedness that the entity has. This indicator was measured by the ratio between total debts and own capital. The results show that higher levered firms are less conservative. They have higher good news timeliness and they have less bad news timeliness. As a consequence, they have higher asymmetry timeliness, which could be a sign of conservatism. Levered entities recognize loses on several periods of time.

The problems of this research are related with the small dimension of the sample that was included into the analysis, with manual data collection and with the fact that that some coefficient are not statistically significant even though several models have been tested.

As the correlation between independent variable was not included, we consider that we can improve our research by conducting an analysis considering both other independent variables, such as the effective tax and the correlation between them.

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## Analysis Models of Bankruptcy Risk

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### Abstract

*In the current market economy, the activity of all organizations it is influenced by the bankruptcy risk, which is why must be paid attention to the causes of risk management, risk analysis, risk mitigation by specific measures.*

*The objective of this article is to highlight the ways of analyzing the bankruptcy risk. In this paper, it is developed a synthetic theoretical framework on the bankruptcy risk and its methods of analysis, a comprehensive case study on calculation and risk assessment indicators using two methods: indicators of reliability and scoring methods- Altman model, Conan-Holder model.*

*The research highlights the importance of bankruptcy risk diagnostic using both methods: indicators of reliability and scoring methods.*

**Keywords:** bankruptcy risk, Altman model, Conan-Holder model, reliability indicators.

**J.E.L. Code:** D81, M21

### 1. Introduction

The risk is an inherent component of any organization that is involved in any business, and which is based on a complex of factors. The dynamics of market relations leads to increased uncertainty environment in which the organizations are acting. In the literature there are different conceptual approaches of the notion of risk. However, most authors believe that, in the financial management of the company the risk refers to the variability of the results indicators of company, profit and profitability. [5]

Because of the multiple changes that occur in the activity of an organization it is necessary to achieve a bankruptcy risk forecast founded on scoring methods.

The causes of bankruptcy vary depending on the activity of the organization and refers to: reducing the sales market, the increasing cash problems, mismanagement, unchecked expansion, inefficient financial management, lack of a strategic vision, supply and demand mismatch, etc. The study of bankruptcy causes led to the conclusion that this is not a brutal phenomenon, but a result of a progressive deterioration of the financial situation of the company, the risk of insolvency is foreseeable several years before cessation of payments [9].

### 2. Research methodology

In the first part of this research there are presented some theoretical aspects on the bankruptcy risk and the methods of analysis of bankruptcy risk. As main research technique it is used literature review process, documenting in the relevant literature, study of various books, articles, websites, etc.

Considering the importance of determining bankruptcy risk, we chose two methods of analysis and interpretation of it: the first method refers to the bankruptcy risk analysis using reliability indicators and the other method focused on using risk prediction scores method (Altman model, Conan-Holder model). We calculate the indicators (reliability and Altman and Conan-Holder model) over four consecutive years 2010-2013 and the last step consists in analyzing and interpreting the indicators.

*The research hypotheses* that we propose to check consists of:

- I1- to determine the bankruptcy risk it is enough analysis and interpretation of financial ratios;
- I2- score method gives sufficient data to diagnose the risk of bankruptcy;
- I3- bankruptcy risk diagnosis should consider both indicators of reliability and scoring methods.

### 3. The risk of bankruptcy. Concept and methods

Bankruptcy risk can be defined as companies failure to cope with a financial transaction, namely its inability to refund the amounts borrowed under the terms agreed with third parties, under a credit agreement [12].

Bankruptcy risk diagnosis involves an evaluation of company capacity to cope with commitments to third parties, so in the evolution of solvency and liquidity of the company [7].

Any economic operator it is exposed at the bankruptcy risk, which may have negative consequences on other economic agents wich is collaborating with them. The causes that lead to the bankruptcy of a company can be grouped in [2]:

-External causes arising from social and competitive economic environment in which the organization operates

-Internal causes that relate to faulty management.

In our opinion the bankruptcy cases may be multiple but all converging around two ideas: the inadequacy of the requirements of the market economy; difficulty in solving financial problems which entails reducing liquidity, lower profitability, creating financial jams, etc.

Risk analysis and prediction bankruptcy use beside traditional methods and techniques (static analysis of bankruptcy risk on the balance sheet, bankruptcy risk analysis by rates method, etc.), a statistical technique called multiple discriminant analysis which transform information provided by different rates in a score that predict the success or failure of an organization. [10].

Scores method has as objective to find some prediction models of bankruptcy risk and is based on statistical techniques of discrimination analysis. After application of discriminant analysis for each organization it is obtained a Z score, which is a linear function of a set of rates. Z score of each organization is determine by the falowing relationship:

$$Z = a_1x_1 + a_2x_2 + a_3x_3 + \dots a_nx_n$$

xi- rates involved in analyzing

ai- weighting coefficient of each rate.

In theory there are known several economic models based on scoring method

most used and known are: Altman model, the model Conan-Holder

### 4. Bankruptcy risk assessment based on the reliability indicators

The size of economic and financial activity risk shows an increased interest both for the organization and the creditor banks, who considers that to obtain a loan, the organization must submit a financial reliability, who has to expres a guarantee of the business management effective.

According to the methodology of Romanian Commercial Bank, the main indicators for assessing the reliability of an organization are: liquidity, solvency, leverage, rotation speed of current assets, profitability, added value. [3]

**Liquidity** can be defined as "the ability of an organization to perform on time, with the resources that depend on cash payment obligations, report between the means of payment and outstanding liabilities" [6]. In literature, there are three categories of liquidity, namely: current liquidity (Lc), quick liquidity (Lr) immediate liquidity (Li).

$$Lc = \frac{\text{Current asstes}}{\text{Current liabilities}}$$

$$Lr = \frac{\text{Current assets-Inventories} \times 100}{\text{Debt} < 1 \text{ year}}$$

$$Li = \frac{\text{Cash and investments} \times 100}{\text{Debt} < 1 \text{ year}}$$

**Solvency** refers to the ability of the organization to meet its outstanding obligations arising both from current operations, as well as commitments entered into in the previous period [11].

The solvency ratios used are: general solvency ratio (Rsg) ptrimoniale solvency ratio (Rsp). Rsg refers to the degree to which the organization assets can cover its current liability.

$$Rsg = \frac{\text{Total assts}}{\text{Total debts}} \times 100$$

$$Rsp = \frac{\text{Equity}}{\text{Total liabilities}} \times 100$$

**Financial leverage** is the ratio between debt and equity, is expressed in two forms, namely general gearing (Gig) and financial leverage ratios (Gif).

$$Gig = \frac{\text{Total debt}}{\text{Equity}} \times 100$$

$$Gif = \frac{\text{Total financial debt}}{\text{Equity}} \times 100$$

**Rotation speed of current assets (Rac)** has a particular importance for assessing the bankruptcy risk, so the reduction of the rotation speed of the asset or liability contributes to an increased risk of bankruptcy.

$$R_{ac} = \frac{\text{Turnover}}{\text{Current assets}}$$

**Profitability.** The decrease of economic rate of return (Ren) and financial rate of return (Rf) is a signal of the increasing bankruptcy risk.

$$R_{en} = \frac{\text{Result of exploitation}}{\text{Net invested capital}} \times 100$$

$$R_f = \frac{\text{Net profit}}{\text{Equity}} \times 100$$

**Added value rate (Rva)** refers to the share of new created value in total business value.

$$R_{va} = \frac{\text{Added value}}{\text{Turnover}} \times 100$$

## 5. Bankruptcy risk analysis based on the Altman model

Altman model is based on discriminant analysis and this was used to develop classification/prediction models of affiliation of some comments to certain classes determined a priori.

Function-score Z proposed by Altman is actually an embodiment of a linear classifier (Fisher type), it took the following form:

$$Z(r_1, r_2, \dots, r_n) = \alpha_0 + \alpha_1 \times r_1 + \alpha_2 \times r_2 + \dots + \alpha_n \times r_n$$

Based on the score obtained by each analyzed company it is made the allocation to one of two categories: the bankrupt company or unbankrupt company.

Altman original version model proposed in 1968, is as follows [1]:

$$Z = 1,2R_1 + 1,4R_2 + 3,33R_3 + 0,6R_4 + R_5$$

The rates used in this model are:

- The rate of current assets

$$R_1 = \frac{\text{Current assets}}{\text{Total assets}}$$

- The rate of reinvested profit

$$R_2 = \frac{\text{Reinvested profit}}{\text{Total assets}}$$

- Economic rate of return

$$R_3 = \frac{\text{Gross profit}}{\text{Total assets}}$$

- Financial security rate

$$R_4 = \frac{\text{Market capitalization}}{\text{Total liabilities}}$$

The market capitalization refers to the market value of the subscribed capital paid.

For the unlisted organizations it is used the equity value.

- The rotation speed of total assets

$$R_5 = \frac{\text{Turnover}}{\text{Total assets}}$$

From the contents of the five rates it result that their levels are the better if they have a higher value. Z score can be interpreted as follows: [3]

- $Z < 1,8$ - the bankruptcy of the organization is imminent;
- $Z > 3$ - the organization's financial situation is good, it is solvable;
- $1,8 < Z < 3$ - the financial condition is difficult, the performance is low, but some appropriate measures can lead to overcoming the situation.

## 6. Bankruptcy risk analysis based on Conan-Holder model

The model belongs to french analyst J. Conan, M. Holder and managed to provide over 50% of bankruptcy in the 70. The rates that underlying the model are "liquidity-chargeability" as it result from Z function [8].

$$Z = 16X_1 + 22X_2 - 87X_3 - 10X_4 + 24X_5$$

The variables used in the model are:

- Fast liquidity rate

$$X_1 = \frac{\text{Receivable} + \text{Cash}}{\text{Current liabilities}}$$

- Financial satability

$$X_2 = \frac{\text{Permanent capital}}{\text{Total liabilities}}$$

- sales financing from borrowed sources

$$X_3 = \frac{\text{Financial expenses}}{\text{Turnover}}$$

- The contribution of personnel expenses to creating added value

$$X_4 = \frac{\text{Staff costs}}{\text{Added value}}$$

- The share of gross exploitation surplus in value added

$$X_5 = \frac{\text{Gross operating surplus}}{\text{Added value}}$$

This model contribute to the decision making regarding the organization framing in a certain class of risk. The bankruptcy risk depends on the level of "Z", so the possibility of bankruptcy decreases while the score is increasing.

## 7. Analysis and interpretation of results

The analysis of the bankruptcy risk within the organization has been achieved through two distinct categories of indicators: indicators of reliability and scoring methods-Altman model, Conan-Holder model. Given the importance of determining the bankruptcy risk, it proceeded to the calculation of indicators during the four successive years, 2010 to 2013. The centralization of these indicators is presented in Table. 1.

Tabel no. 1: Indicators of Risk Analysis

Indicator s	U M	Period			
		2010	2011	2012	2013
<b>Indicators of reliability</b>					
Current liquidity (Lc)	%	201.80	236.25	109.88	112.93
Quick liquidity (Lr)	%	54.52	45.56	63.14	33.84
Immediate liquidity (Li)	%	8.54	3.25	109.88	112.93
General solvency ratio (Rsg)	%	159.67	174.23	131.51	137.62
Patrimonial solvability rate (Rsp)	%	37.37	42.60	23.96	27.34
General gearing (Gig)	%	167.59	134.72	317.33	265.81
Financial leverage (Gif)	%	80.70	66.84	84.24	91.37
Rotation of current assets (Rac)	Rot a tii	1.22	1.66	0.65	1.09
Economic rate of return (Ren)	%	7.67	4.42	1.87	6.39
Financial rate of return (Rf)	%	1.63	1.64	0.79	0.33
The rate of added value (Rva)	%	26.54	19.81	26.25	10.81

Scores method					
Function Z-Altman Model		103.85	122.99	80.73	79.54
Function Z-Conan-Holder model		48.67	57.31	76.60	75.07

Source: author view based on financial data of the organization

We can notice that the indicators from the table no. 1 fluctuates from year to year.

*Current liquidity.* Current liquidity ratio expresses the organization's ability to meet its current liabilities from current assets. It recorded a significant drop in 2012 compared to 2011, of 53.49%. According to this rate, short-term financial equilibrium is achieved because the rate has values above 100%.

*Quick liquidity.* It is noted that stocks represent the most significant part from the current assets, so that the organization is not able to meet its short-term debts from receivables and cash and thus it is exposed to a risk. The values of this indicator are below the acceptable limits (range 65% -100%).

*Immediate liquidity* it reflects the organization's capacity to meet its short-term debt from its investments and cash. It is noted that in the first two years the available funds is much lower than the debt, such as the rate decreased in 2011 with 61.94%. In the period 2012-2013 the situation is favorable, the available resources are above the debt levels. This rate recorded in the first two years a much lower value than the minimum acceptable value of 36-65% whereas in the last two years has values higher than the minimum acceptable values.

*General solvency ratio.* It refers to the degree to which the total assets of the organization can cover the total debt. Although it has acceptable values we can see a decrease of general solvency of 13.81% in 2013 compared to 2010. The minimum acceptable value of this rate is 166% and the optimal level is 300%.

*Economic solvency rate.* This ratio indicates the proportion of equity in total liabilities, highlighting a reduction of 43,76% of the rate. This is due to higher growth of the liability compared to the equity. To highlight a satisfactory situation of economic

solvency is preferable that the rate to be between 30% and 50%. In this case, patrimonial solvency ratio has values that are close to the minimum accepted level by 30%, but it is decreasing in 2012 and 2013.

*General gearing.* This rate indicates the percentage of total debt into the equity, ie total leverage ratio of the company. There is a sharp increase of the general gearing with 135.55% in 2012 compared to 2011 which indicates an impoverishment of society. It is preferred that the level of this rate to be as low as possible, however observing that it has higher values than the general solvency ratio, the general gearing it is higher than the general solvency ratio in the analyzed years except 2011. The minimum accepted level is 100% in our case surpassing this level.

*The financial leverage.* This rate indicates the share of financial debt in equity. There is an increasing of the financial leverage with 26.03% in 2012 compared to 2011 which indicates an impoverishment of the society, because the growth rate of net financial debt is higher equity. It is preferred that the level of this rate to be as low as possible, however it has higher values than the economic solvency. The minimum acceptable level of this indicator is 70%, in our case surpassing this level.

*Current assets rotation.* It refers to the speed with which a company rotates its current assets to support a given level of turnover. It is recommended that the number of rotations to be as high as possible. The rotation speed of current assets characterizes how efficiency the current assets are used. In our case the rotation number of the current assets is low and is declining, decreasing by 60.84 in 2012 compared to 2011 because the growth rate of current assets increased by 130.34% and the turnover decreases by 9.64%.

*Financial rate of return.* Express the capacity of the organization to evolve net profit and have to have a higher level than the interest rate. In our case the indicator has very low values that are decreasing. The values of the rate are below the average rate of interest in 2013, which indicates an unsatisfactory situation and increased bankruptcy risk.

*Economic rate of return.* It reflects the relationship between an economic results and economic means (capital) needed to its

production. It is estimated that an appropriate level of this ratio should be over 25%. In our case, the indicator registers values that are below the limit allowed and which are decreasing, except 2013 when it recorded a growth of 241.71% compared to 2012.

*Added value rate.* It refers to the share of newly created value in the organization's turnover. It records continuously decreasing values except 2012, so in 2013 compared to 2012 decreased by 58.82% because while the turnover increased, the added value dropped significantly. The decrease in this indicator is a sign of possible difficulties that may be faced by the organization.

*Z function- Altman model.* We can notice that Z function is decreasing in the analyzed period but with all this recorded values much higher than the maximum limit. So if  $Z > 3$  the organization's financial situation is very good, it is solvable. It results that the organization shows a very good situation in terms of bankruptcy risks, the firm is viable in accordance with the function Z values.

*Z Function- Canon-Holder model.* Canon-Holder model confirms that the organization has an excellent situation in terms of bankruptcy risks, the probability of risk is below 15%. From the analyzed indicators it results that the financial position of the organization recorded a positive trend in the four years analyzed.

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## 8. Conclusions

The risk is manifested at all levels of the organization, starting with goals setting, making decisions about the organization's activity. We consider that risk in general and bankruptcy risk in particular it is in close relationship with the decisions and profitability. So any decision carries a certain risk. If we are referring to profitability, as it diminishes it increases the bankruptcy risk.

From our point of view the risk involves three stages: identification of the causes that



generate risk, analysis and risk control, risk diminish. The causes of risk can be multiple and differs depending on the field of organizations activity.

The bankruptcy risk analysis was done using two types of methods: reliability indicators and scoring method (Altman model, Conan-Holder model). From the data analysis and interpretations during the four years, using two types of methods, the research generate different conclusions.

So if we refer to the reliability indicators of the organization, taking into account their values and the downward trend, we conclude that the organization shows a medium bankruptcy risk. We can see that the most distant values of the minimum accepted level is recorded in case of the profitability, which we consider it represents one of the most important indicators of bankruptcy risk assessment because it represents the organization's ability to obtain profit from its activity. In all of reliability indicators, we can see a significant oscillation of the indicators from one year to another, especially in terms of increasing debt that does not lead to the increase of results.

In terms of Z function values at the two analyzed models (Altman, Conan-Holder), the situation is exactly the reverse compared to the of reliability indicators results. So the two models results confirm that the organization has an excellent position in terms of bankruptcy risk, the bankruptcy probability is very reduced.

From the above conclusions, it turns out to be verified the research hypothesis no. 3 in accordance with the bankruptcy risk diagnosis must consider both the reliability indicators and the indicators calculated by the scoring method.

We appreciate that the significant differences between the results of two categories of bankruptcy risk analysis methods are based on the following arguments: there are used different categories of indicators in the two methods; the diagnostic methods of bankruptcy risk based on discriminant analysis at a certain point have a reasonably accurate but in time their accuracy diminishes unless there is taken action to update the variables considered. Moreover we appreciate that indicators of bankruptcy risk analysis should be different

depending on the industry in which the organization operates.

In terms of future directions of research, we mention that this work is the beginning of a future large-scale searches whose purpose is achieving an econometric model that highlights the link between risk and profitanility, extrapolating the research at a larger number of organizations

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## Basel III. How Far Have We Come?

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### Abstract

*The financial crisis has prompted a rethinking of regulations on financial institutions. They have come a long way from full implementation of the new regulatory standards introduced by Basel III.*

*This paper discusses how the banks reacted to implementation Basel III, the new international standard of banking regulation. Based on this analysis, the paper finds that banks will meet the deadlines set out for fulfill new capital requirements. Moreover, some banks will exceed both deadlines and levels set in accordance with Basel Committee on Banking Supervision (BCBS) timetable.*

**Keywords:** financial crisis, Basel III, CRD/ CRR IV, banks, capital requirements

**J.E.L. Classification:** G21, G32, M21

### 1. Introduction

Negative externalities transmitted in economy from collapse of some large financial institutions as a result of the recent financial crisis were significant. Therefore, the efforts of the authorities and specialists bound for preventing and avoiding the collapse of such institutions. Consequently BCBS launched the new Basel III regulatory framework.

Basel Agreements represents a set of international banking regulations aimed to ensure the safety and soundness of the international banking system and reducing competitive inequalities. [10]

The new regulations introduced by Basel

III have a fairly long implementation period, but banks can comply before the deadline of 2019. Once the agreement is implemented it is assumed that banks will have a higher capacity for absorption of financial and economic shocks. Therefore it will reduce the risk of contagion.

For this reason supervisors follow implementation of the new capital requirements and how to fulfill them according to the timetable set.

Therefore, the aim of our study is to assess how banks complied with implementation of Basel III Agreement.

For this purpose, the paper is structured in two parts: the first part contains an overview of the key elements of Basel III Agreement and in the second part is performed an analysis of fulfillment the new regulations by banks .

### 2. Key elements of the Basel III framework

Basel III Agreement aimed at addressing the deficiencies and failures manifested in previous agreements. The measures provided by the Agreement refers at increasing the quality and quantity of capital held by banks and introducing liquidity standards. Their objective were to strengthen risk assessment and supervision and governance of financial institutions.

The Agreement introduced the concept of common equity comprising common shares and retained earnings. Previous agreements provided a level of 2% of Common Equity Tier 1 ratio (CET1), while Basel III required a level of 4,5%. [3]

Overall Tier 1 element of the capital base (including common equity) will be 6% when

fully phased in by 2015, increased from the current 4% minimum. The bank capital will be structured as Tier 1 and Tier 2 capital, level 3 capital being eliminated while the total capital requirement remains at the current level of 8,0%. (Table 1).

Furthermore, there will be a mandatory capital conservation buffer equivalent to 2,5% of risk-weighted assets. So, banks will be required to maintain a ratio of 7% of risk-weighted assets in common equity (4.5% CET1 plus a 2,5% capital conservation buffer) from 2019 onwards.

Table 1. The new capital requirements

	Common Equity Tier1	Tier1 Capital	Total Capital
Minimum	4,5%	6%	8%
Conservation buffer	2,5%		
Subtotal	7%	8,5%	10,5%
Countercyclical buffer	0 ~2,5%		
Total	7 ~ 9,5%	8,5~11%	10,5 ~ 13%

Source: adapted from Basel Committee on Banking Supervision [3]

Where required, a countercyclical capital buffer it would be imposed at a national level only during times of excessive credit growth, and will be allowed to be released during times of credit contraction. The level of countercyclical capital buffer can ranges between 0% and 2,5% of risk-weighted assets and must be met by CET1 capital. [3]

Basel III completed capital adequacy requirements adding a new indicator called leverage ratio. This leverage ratio is a non-risk-based indicator being calculated by dividing Tier 1 capital by the amount of exposure of all the assets and certain off-balance sheet exposures. Regulators have agreed to test a minimum of 3% of this indicator. The bank disclosure of the leverage ratio will start on January 1, 2015 and will become a mandatory part of Basel III requirements only from 2018.

In addition, Basel III introduces standards for measuring and monitoring liquidity risk. New indicators measuring both short-term liquidity - liquidity coverage ratio (LCR) and long-term - net stable funding ratio (NSFR). Implementation is scheduled for 2018. [3]

### 3. Status of Basel III implementation

After Tarullo, the Basel Agreements may be assessed in two ways. One way is to check whether the agreement was properly implemented and observed by each country. Another way to evaluate is whether it has been successful in achieving goals. [10]

Referring to assess whether the objectives proposed by Basel 3, mentioning is that at the moment the research is not conclusive since the Agreement it is not fully implemented.

Regarding implementation of Basel III at the moment many countries go through the process of implementation of the Agreement by 2019 according to BCBS schedule.

Therefore is important to make an assessment of compliance implementation of the new capital requirements. The new regulations have generated supervisors concern regarding new benchmarks achieve and the way in which banks will increase their capital rates.

According to the BCBS quantitative impact assessments between 2009-2014, the analyzed banks fulfilled the new capital requirements, significantly increasing their capital ratios. The study involved a total of 227 banks, including 102 classified in Group 1 and Group 2 banks comprising 125 banks. [4], [5]

Group 1 consists of banks holding higher Tier 1 capital level of 3 billion euros and are active internationally. All other banks are considered Group 2.

Thus, the capital measured by common equity tier 1 ratio (CET1), increased from 5,7 percentage points at end-2009 to 10,8 percentage points of risk-weighted assets in June 2014 for the largest 102 banks in the world, and from 7,8 percentage points at end-2009 to 11,8 in June 2014 for the 125 banks analyzed by the BCBS. Moreover, it can see that average ratio comfortably exceeded the target level of 7,0% (CET1 capital plus conservation buffer) to be achieved in 2019. (Table 2)

Table 2. Banks' common equity (CET1)

Banks' common equity (CET1) has risen relative to risk-weighted assets Fully phased-in Basel III ratios, in per cent									
	2009		2011		2012		2013		2014
	31 dec	30 jun	31 dec	30 jun	31 dec	30 jun	31 dec	30 jun	
Large internationally active banks	5.7	7.8	7.7	8.5	9.2	9.5	10.2	10.8	
Other banks	7.8	8.8	8.7	8.8	9.4	9.5	10.5	11.8	

Source: Basel Committee on Banking Supervision [2], [4], [5]

According to BCBS data on Tier 1 capital ratio shows that the Group 1 banks recorded an average of 10,5% at 31 December 2013 and an average of 11,2% at June 30, 2014. The capital adequacy ratio held by the same group had an average of 11,9% at 31 December 2013 and an average of 12,6% at 30 June 2014. For Group 2 banks are recorded an average of 10.5% at 31 December 2013 and an average of 12.0% at June 30, 2014 for Tier 1 capital ratio, and capital adequacy ratio was an average of 12.8 % 31 December 2013 and an average of 13.7% at June 30, 2014. [4,5]

Hence we can conclude that banks will meet the deadlines set out from new capital requirements because the level of the highest quality capital and best loss absorption comfortable exceeds the 7% benchmark.

In terms of how to meet the new capital requirements, banks may choose to increase their capital at an appropriate level or choose to reduce assets, the volume of credits provided, on condition to maintain volume of own funds constant.

In addition, banks may opt for a change in asset structure, meaning transforming risky claims in claims with a lower risk level or no risk. Banks capital increase at an appropriate level can be achieved either by issuing new shares or the undistributed profits to shareholders and allocated in this regard.

The study conducted by Cohen and Scatigna shows that most banks have adjusted their capital levels for the most part by accumulating retained earnings. [6]

Thus, banks in advanced economies have reduced their dividend payments as part of this process while banks in emerging economies have recorded higher income and asset growth, using part of the revenue to increase capital ratios. To a lesser extent, banks in advanced economies have switched to active with lower risk weights and benefited from modest net interest margins while reducing operating expenses does not seem to be important.

Regarding leverage ratio, according to the January 2014 definition of the Basel III we can say that at the end of 2013 banks from Group 1 have an average 4,4% while for Group 2 banks the average was 5,2%. Although leverage ratio increased at 4,7% for Group 1 banks and to 5,6% for Group 2

banks on 30 June 2014 there is seventeen banks that do not meet the minimum leverage ratio (seven banks from Group 1 and ten banks from Group 2). [5]

This thing cannot represent a problem considering that the leverage ratio requirement will become mandatory only from 2018.

The two liquidity standards are met by banks according monitor exercise conducted by BCBS. The liquidity coverage ratio (LCR) came into effect on 1 January 2015 and is set at 60% for 2015 and will then rise in equal annual steps of 10 percentage points to reach 100% in 2019. The average LCR for the Group 1 bank sample was 121% for Group 2 banks, the average LCR was 140% in June 2014. Also the weighted average of net stable funding ratio (NSFR) for the sample of Group 1 banks was 110% and for Group 2 banks, the average of net stable funding ratio (NSFR) was 114%. [5]

#### **4. Status of Basel III implementation in Romania**

As regards Basel III Agreement, Romania as a member of the European Union, will implement the agreement through CRD/ CRR IV who transpose international standards in Europe regarding bank capitalisation agreed at the G20 level (currently known as Basel III). CRD/ CRR IV try to apply the same rules in the Single Market Banking to ensure the harmonization of regulatory requirements across countries and equal competitive conditions. Therefore, regarding the implementation of Basel III, Romania is found alongside other European Union member states in the process of implementation.

The share of foreign-owned institutions' assets in total assets of the Romanian banking system was 90% at the end of 2013, reaching 81% in July 2014. [8]

This brings an advantage to the Romanian banking system through the transfer of know-how to the group and subsidiaries from Romania, by the cross-border banks.

Thus, as we see in Table 3, at the level of capital adequacy ratio calculated for the Romanian banking system we find an increase of 15,46% from its December 2013 to 17,28% in December 2014. The level of leverage ratio stood at 7,96% at end 2013 and

7,26% in December 2014, reflecting a high level of capitalization. [8]

*Table 3. Capital ratio for the Romanian banking system*

	2009	2010	2011	2012	2013	2014
capital adequacy ratio	14,67	15,02	14,87	14,94	15,46	17,28
Tier1 capital ratio	13,37	14,22	14,29	16,62	17,25	14,87

Source: National Bank of Romania database

Data on the two liquidity ratios, LCR and NSFR were not available, the National Bank of Romania collecting this data for monitoring purposes.

When referring to the first two banks in the Romanian banking system in terms of assets, Romanian Commercial Bank and BRD Groupe Societe Generale, we find that they comfortably exceed the minimum set level. (Table 4)

*Table 4. Capital ratio for the first two banks in the Romanian banking system*

		2009	2010	2011	2012	2013	2014
Romanian Commercial Bank	capital adequacy ratio	15,81	16,80	17,09	18,57	24,89	18,98
	Tier1 capital ratio	12,11	13,00	13,30	13,63	18,83	12,49
BRD Groupe Societe Generale	capital adequacy ratio	14,05	16,48	17,43	16,68	16,76	18,30
	Tier1 capital ratio	10,07	14,94	16,41	16,04	-	-

Source: Bankscope

So for, Romanian Commercial Bank we find that the capital adequacy ratio was 18,98% at the end of 2014 (calculated according to Basel III). CET1 ratio was 13,06% and Tier1 ratio was 12,49%. [9]

For BRD Groupe Societe Generale we find that the capital adequacy ratio was 18,3% at the end of 2014 but the other indicators was not available.

Although data for the Romanian banking system on new indicators under Basel III are not fully available we can say that the new benchmarks will not pose too much problems in achieving them.

As mentioned above, share of foreign capital in the Romanian banking system is high, consisting of banks within European Union, some of which are considered part of the group of systemically important banks. Direct and their strict monitoring involves monitoring group and subsidiaries in Romania as regards the implementation of

CRD / CRR IV.

Another important factor in capitalization of the Romanian banking system was represented by commitments of foreign parent banks under the Vienna Initiative to maintain a level of capital over 10%. But now, commitments to maintain exposure are no longer in force. However foreign parent banks are still determined to maintain a high level of capitalization of their subsidiaries.

## 5. Conclusions

Basel III agreement are the focus of global financial reform.

Increasing the quality of the capital base and new capital and liquidity standards are intended to enhance the ability of banks to absorb shocks and to avoid the use of public funds to recapitalize them.

But the process of adopting Basel III is not completed yet. We appreciate that most banks have achieved the new capital adequacy standards, fits well in the the timetable set by the BCBS. It is important to note that the level of the highest quality capital and best loss absorption was reached and comfortable exceeds the 7% level.

However, there are many challenges until 2019 that banks must confront. Although banks will then have a higher level of capital adequacy, the question of how much capital is required to be held by banks will remain? This is because at the moment we can not assess whether the new standards require financial institutions an adequate level of capital or as Balthazar argue a too tight regulation will be a source of systemic risk. [1]

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## Integrated ERP Systems at Trade Entities

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### Abstract

*Constant change of market conditions and fierce competition have imposed, in the framework of economic entities in general, and those in the trade, particularly finding ways as effective for obtaining certain information to capture, on a continuing basis, all relevant aspects related to internal processes and the interaction with the external environment; so, the use of information technology-based solutions in the activity of economic entities has evolved over time from option to stage the necessity. To thrive, economic entities in general, and those in the trade, specifically (in my opinion), are required to integrate applications into a powerful infrastructure, so that the entities in the trade, an integrated system is a combination of business management practices with information technology, whereby the business processes of an entity are integrated into the computer system, in order to achieve specific business objectives.*

**Key words:** accounting information system, Enterprise Resource Planning, trade entities.

**Classification J.E.L.:** M 40, M 41

### 1. Introduction

For the strategy and processes of economic entities today, electronic business are fundamental and have an especially important role.

According to Meșniță (2002), cited by Airinei [1], the author believes that in order to thrive in the world of e-business economic entities in general, and those in the trade, specifically (in my opinion), it must, sometimes are forced to integrate applications into a powerful infrastructure. Digital business combines traditional resources of information systems with a vast

wealth of resources available on the internet. In this context one can speak about two situations: traditional firms that are forced to redesign information system and those created from the start for online business (firms dot.com); so in the first case it begins with internal information integration, Enterprise Resource Planning systems.

According to Hall [2] integrated ERP system is a model of information system which allows an entity to automate and integrate key business processes, and Magal[3] continues claiming that integrated systems within the entity are the strongest and most complex systems of information nowadays.

At the trade entities, an integrated system is a combination of business management practices with information technology, whereby the business processes of an entity are integrated into the computer system, in order to achieve specific business objectives. The role of an integrated system is to facilitate incorporation and updating of techniques and management practices within the entity's business processes. [4]

As Hurbean affirm [5] integrated ERP system is referred to as an software system and is implemented in close connection with economic processes, the resulting requirements and functions desired by recipients. At the same time the author asserted that the integrated ERP system is a management information system based on graphical user interfaces, relational databases, languages of IV-th generation, client/server architecture, etc..

Thus, at trade entities, integrated ERP systems are systems based on client/server architecture, developed for the processing of transactions and encourage the integration of all processes, from planning phase activity up to relations with suppliers, customers and other business partners. In other words are application packages consisting of several modules which, at trade entities, functional

areas as well as supports all accounting, financial, planning, sales, marketing, distribution, human resources, inventory management, logistics and e-business.

Similarly, in a technology-driven definition as said Simkin [6] integrated ERP system to an entity is an accounting information system and more, Mocean [7] considers that the integrated ERP system is an accounting information system based on graphical user interfaces used, relational databases, languages of IV-th generation, CASE tools and client/server architecture. However, the author asserts, still that unanimous opinion was that while technology is essential in the achievement of an integrated ERP system, the definition needs to underscore its functional areas covered: accounting, sales, purchasing, inventory, etc.. System architecture facilitates the transparent integration of the modules, ensuring the flow of information between all of the entity's functions in a highly transparent manner.

In the same context Simkin [6] said that the accounting information system is a collection of data and the processing procedures which create the necessary information for its users. At the same time the author states that in the context of information technology, it is useful to view an accounting information system as a set of five components that interact with each other namely: hardware, software, data, people and procedures.

The hardware is probably the most tangible element in this set, but it is just a piece of this set of components and not necessarily the most important piece. In turn the hardware needs to work together with other components of the system in order to perform data processing tasks, because the hardware without a program, for example, would stay on hold, and no data to process, both hardware and software would be unnecessary. Without procedures accounting data cannot be accurately collected or distributed appropriately and, in the end, it is doubtful that people without the rest of the system would be able to operate for long or be of great use.

**The data** represents the foundation of an integrated ERP system, and the database is a

central repository for storing and organizing data. Data warehouses, data processing supports providing a solid platform for consolidation of historical data for analysis.

**The programs** carried out the connection between the databases and functionality served. In other words, the functionality is achieved through the interaction between programs and data bases, software ensuring data collection, validation, processing and transfer, and export data to other fields.

At trade entities, in order to obtain the information requested, the programs take the data from the data bases created through various other programs, but also from other sources; data can be entered manually, operators at the keyboard, or by direct processing (scanning of bar codes or retrieving data directly through radio frequency identification).

**The results** of processing are given to users in the form of reports or attached on the monitor screen, or printed to the printer, but also in the form of files that can be exported and processed using other work environments, where after the delimitation of fields of data required may make certain selections on those measures, sorting after different criteria can be set or certain levels of summarization. At the same time, besides the possibility of setting up, integrated ERP systems may include a report generator, which can be used to build new reports, which were not foreseen in the initial requirements and which can be saved and used in the other place to be subsequently made some complex analysis on the data, additional calculations, graphs, etc..

At the same time integrated ERP systems can generate different documents as outgoings, with the standard form and content as well as invoices, shipping notices, NIR's, orders, etc.

Another basic concept element of integrated ERP systems, to the entities in the trade, **is the flow of transactions**, processes (workflow), they illustrate the deployment of a functional process, for example: calculation, recording and payment of wages or order, purchase and pay a quantity of goods from a supplier. [3]

### **1.1 The architecture of integrated ERP systems at trade entities**



As Magal also affirm [3] integrated system **architecture** relates to the technical structure of the software, to the ways in which users interact with software, and the ways in which software manages the physical hardware. Today the most modern integrated systems have either *a client-server architecture three-tier* or *service-oriented architecture*. Also there are many different ways to implement integrated systems in these two architectures but both models offer both technical and cost benefits to distinct and specific disadvantages.

However, the impact of these two models for managing business processes is largely the same.

### **Client-server architecture**

These applications are composed of three levels or layers as follows:

- the way it interacts with the application (using the menus or by selection),
- what application can be realized through them (create formulas or graphs) and
- the place where the processed data are saved; and these layers or levels, in turn, are composed of presentation layer, application layer and data layer respectively.

Thus, unlike desktop applications, where all three layers are contained in a single system, client-server architecture on three layers separating the three layers in three separate systems.

Finally, the author believes that the shift to client-server architecture on three levels within an entity, has dramatically reduced the costs of acquisition, implementation, and use of integrated systems, while there has been a significant increase of system scalability.

### **Service-oriented architecture**

In the author's opinion the fundamental concept behind service-oriented architecture refers to the technical capabilities that allow systems to connect to each other via standardized interfaces, through web services. Thus, by using web services, the entities can now integrate many client-server applications and can create mash-up entities or different applications to send and receive data between embedded systems in a

standardized way, which eliminates much of the cost and complexity of integration project, and in addition, run new and more specific processes which are then integrated into systems standard.

In essence, as the author, to service-oriented architecture allows entities to build top applications consisting on the client-server architecture on three levels, without changing the underlying applications thereof; basically this ability provides entities an whole new level of flexibility with an extremely low cost. As stated and Heffner (2005), quoted by Hurbean [5], service-oriented architecture constitutes the design, development and administration of infrastructure software, whereby the applications are organized into units of work that are accessible through the network of computers and services have a high level interface, which receives, in the design stage, the same attention as the databases and applications.

Therefore, we can conclude, as Păvăloaia [8], also said, service-oriented architecture is not just a set of web services standards for easier application integration, but becomes a key element underlying the strategic transformation of the entity, and for this purpose the services based on service-oriented architecture enables modular implementation, in a digital format of the economic aspects of the entity allowing connection with any customer, vendor, employee, or other business partner at any time and in any place.

At the same time, I am and I feel that trade entities and features this architecture can lead to significant improvement in the quality of services and cost reduction due to the efficient distribution of information within the entities, as well as between business partners.

### **Data from integrated systems at trade entities**

At trade entities, for example, as Magal [3], also stated, the data from an integrated system are used to represent the physical system in which all stages of the process, such as creating a purchase order and receipt of goods are carried out, and these steps generate data, which is basically the process stages of supply results in this case.

Thus, as stated and the author of the economic entities in general, and those in the trade, in particular, there are three types of data in integrated systems: *organizational data, data base and data transaction*:

- organizational data are represented by the structure of the entity, such as branches, outlets, storage facilities, warehouses, etc.,
- basic data are represented by entities associated with different processes. For example, at trade entities in these processes involves buying goods from suppliers and sell goods to customers, and in this case, the buyers and suppliers of goods represent the basic data in integrated systems,
- at the trade entities processes are executed under the organizational levels, involving basic data and result in your transaction. Transaction data reflecting the consequences of execution or process steps to transactions. Examples of transaction data is the data, quantities, prices and terms of payment and delivery of goods.

At the same time, in the opinion of the author the transaction data are a combination of organizational data, basic data and situational data-data that is specific to the task of running such as: who, what, when and where.

Integrated systems use different types of documents to your trading. Some of these documents are created and used while the process is running; other data are created after the process is completed. If we refer to the first category of trading documents we include here the purchase orders or purchase orders, notices accompanying the goods and invoices. Thus, an order of purchase order communicated to seller, an opinion accompanying the goods accompanying the consignment sent by the supplier, and an invoice is a request for payment for goods delivered.

## **1.2 The role of integrated within systems of trade entities**

The economic entities in general, and those in the trade, in particular, integrated systems is, as said Magal[9], a critical component of visualization vital in the process of organizing the activity entity. At

the same time, in the author's opinion, integrated systems facilitate communication and coordination between the different functions, facilitating the exchange and provide access to data throughout the process. Furthermore, the integrated systems play a vital role in the following three areas:

- running processes,
- ensure the capture and storage of process data,
- ensure performance monitoring processes.

There are cases in which the role is completely automated, it is performed entirely by the system, but in other cases the system must rely on the judgment, expertise and managers intuition.

### **The execution of processes:**

At economic entities in general, and those in the trade, in particular, integrated systems help entities to execute processes efficiently, are embedded in the processes and plays a critical role in the execution of processes. In other words, according to the author, the integrated system and process are intertwined, if integrated system stops to function, the process are no longer running.

Integrated systems implementation processes helps to inform staff when it is time to complete a task by providing the data necessary to complete this task, and in some cases, by providing the means to complete the task.

In the delivery process, for example, the integrated system will inform staffs of deposit orders are ready for delivery, providing a list of goods to be included in the order and at the same time provide information about where to find those goods in the warehouse.

In the process of acquiring the integrated system generates demand for purchase of goods and then informs the procurement department to act in order to carry out the said purchases of goods.

The accounting officer will be able to view an incoming freight, and if the invoice is received from a supplier can verify that it is correct.

In conclusion, as the author, without an integrated efficient and functional, these steps and therefore the process cannot be completely.

### **Capture and storage of process data**

The economic entities in general, and those in the trade, in particular, integrated systems capture and store data as well as the products, quantities, prices, etc., some of these data are generated and captured automatically by the system, and others must be generated and placed separately.

This data entry can be done in various ways, from introducing the manual data entry through automated methods, involving bar codes as well as data that can be read by bar code readers, for instance.

A great advantage of the systems integrated systems is that data must be entered only once, and then can be consulted more easily.

### **Performance monitoring processes**

The economic entities in general, and those in the trade, in particular, the contribution of integrated systems is to monitor and evaluate information about the deployment processes.

Integrated systems can assess, for instance, how well the buying process runs by calculating the time required, or at the time of sending the order to a supplier and supply up to actual receipt of the goods.

### **2. Conclusions**

Fierce competitive environment, from our days, determines the economic entities, including those from trade, to identify, assimilate and exploit all the resources available to them and to enable them to optimise, reducing costs while increasing performance, reducing response time to market changes and the legal framework. Among the instruments to assist in the attainment of economic entities that they include and the assimilation of information technology solutions by incorporating them into information systems.

So, finally, we can say that in the context of an integrated information system almost all accounting operations can be generated automatically or semi-automatically, by retrieving data from the other modules of the system existing within the entity information: purchasing, sales, human resources, assets

under construction, house, bank, etc.. By the way, I am and I feel that to have in a trade entity, a financial accounting information system performing it should be analyzed, designed and implemented only in conjunction with other components they interact with such as, a financial accounting information system performing it should be analyzed, designed and implemented only in conjunction with other components they interact with, namely: purchasing, sales, human resources, assets under construction, house, bank, etc., in order to avoid certain redundant inherent in other approaches.

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## The Accounting Option: Fair Or Favourable Image?

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### Abstract

*Choosing the right accounting policy gets challenging when one has to present the fair image of the firm. The choice between a certain accounting policy or another leads to different results. As there are various options in selecting accounting policies, based on business' objectives, the existence of a strong corporate governance system implemented in the firm can reduce the fraud risk for the financial statements.*

**Key words:** accounting policies, accounting principles, fair image, financial statements.

**J.E.L. classification:** M41, M48, G34, M4.2

### 1. Introduction and Literature review

Accounting is not only about methodologies, accounts, financial situations, but also rules and standards concerning accountancy profession.

The internal and external factors influence the accounting and, together, they compose the culture.

The differences that arise in practice occur mainly in the adoption of International Financial Reporting Standards (IFRS) or US Generally Accepted Accounting Principles (GAAP).

The principles, bases, conventions, rules and practices compound the accounting policies used by an economic entity for preparation and appearance of transactions results, by adopting bases and reflection measurement of assets, liabilities, losses, earnings and capital.

Accounting policies influence the balance elements and, therefore, the economic indicators. From this reason mainly they companies have to pay serious attention when choosing them, so they comply with the requirement of reflecting the true and fair image of the firm and be aware of the impact on the actual period and for the next financial years.

Over time, the accounting system in Romania passed through diverse changes and influences. After the communist period, the Accounting Law was adopted in 1991, which has a major influence on the accounting French framework. It is not surprising, given the relation between the two states, Romania being a francophone country and a Francophile nation. The French influence is undeniable in many fields, from arts to culture, architecture, education system, etc.

The accounting law has a major degree of similarity with the accounting French policies and in Roberts (2000) [1] acceptance the Romanian Profit and Loss Account is identical with the French one.

Instead, the balance is configured after the Anglo-Saxon model.

The accounting principles are built accordingly with the International Accounting Standards, IAS1.

In 1999 was emitted the 4th Directive of the Economic European Community. With the aim to harmonise all these influences in the accounting practice and to bring changes in accountancy in compliance with it the 403/1999 Order was issued, named Accounting Regulation harmonized with the 4th Directive and International Accounting Standards. The amendments to the directive

contain inquiries related to the fair image, concept that we can find in the Anglo-Saxon accounting system as “true and fair view”.

Richard (1999) [2], cited by Roberts (2000) argues Romania’s decision of adopting the 4th Directive and IAS1 certainly aims attracting foreign investors and developing the capital market.

Casta & Ramond (2009) [3] claim that the auditor represents the guarantee of the information reliability released by companies.

Stanciu (2011) [4] considers that fraud risk is more probably in an inappropriate controlling environment, when internal controls do not fulfil their aim, the management, audit committee and board of directors fail to coordinate effectively the internal controls.

Feleagă (2011) [5] affirms that choosing one accounting policy or another, establishing the information to disclose and the way of presenting it supposes to ascertain the most useful policy in communicating the fair image of the financial state of the firm.

## 2. Methodology

In the present paper, we have made a qualitative research of the typical literature, studying the national and international regulations concerning the subject.

We have chosen and processed the data concerning the accounting option and made some analysis concerning different behaviors that could lead to realizing the fair image of the financial state of the firm or trying to hide its poor performance.

Following the analysis, we have shown a series of accounting policies interpretations that can be used to manipulate the financial statements.

## 3. Research Discussion

The firm constantly applies its policies and if any modification is needed it can be made only at the beginning of the financial exercise and only if there are legislative changes or the new procedures provide more relevant and credible information on the firm's operations. Choosing one accounting policy or another generates different financial results.

The IAS1 International Accounting Standard "Presentation of Financial Statements" [6] concerns choosing accounting policies that could reflect a fair image of the entity, which should be respected, constantly applied and published.

The accounting standards, interpretations, recommendations from accounting rules in particular circumstances underline the development of accounting policies and compose the reference framework.

If there is not a standard for a specific interpretation, we rely on professional judgment in stating the accounting policies with the purpose of providing information to stakeholders of the financial statements, taking into account definitions, findings and assessment criteria, liabilities, incomes and expenses set out as reference and on other presentations from bodies of developing rules and policies supported in the industry.

The financial statements are made respecting the accounting principles. The main principles are:

1. Going concern – a firm will continue operating without going bankrupt or reducing the activity significantly. That means that they can differ expenses, depreciations for longer periods.

2. Consistency principle – once the firm adopts a policy, principle or method, it will use it continuously for every accounting year until a proven better principle occurs.

3. Prudence concept – avoiding overestimation of assets and revenues and sub evaluation of liabilities and expenses.

4. Accrual principle – recording the revenues and expenses as they occur in accounting. Bragg [7]

5. The separate evaluation of the concept of assets and liabilities - to make a total on the balance sheet one will evaluate the value of each asset element and liability element separately.

6. Inviolability principle – the opening balance will be the same as the previous year closing.

7. No offsetting principle – the assets and liabilities elements entries will not be canceled with opposite entries. Vials [9] The European Council [8] regulation describes the rule as "revenue and expenditure cannot be adjusted to each other".

8. Substance over form – firstly will count

the utility of the asset, their substance and only after their legal form.

9. Materiality principle – influences the relevance of the accounting information. Staicu (2008) [10] says in the financial statements should be stated only the elements with significant value.

The annual accounts must be correct and reflect a clear picture of the assets, liabilities, financial situation and the company benefit.

There are various options for selecting accounting policies, based on corporate goals. We selected some of the objectives pursued by companies and correlated them with examples of accounting policies chosen to achieve those objectives.

Accounting policies influence the balance elements and, therefore, the economic indicators. From this reason mainly they companies have to pay serious attention when choosing them, so they comply with the requirement of reflecting the true and fair image of the firm and be aware of the impact on the actual period and for the next financial years.

Accordingly, we selected some of the objectives aimed by companies and correlated them with examples of accounting policies chosen for accomplishing them and interpretations used for manipulating the financial situations, in Table 1.

*Table 1. Objectives pursued by companies using accounting policies*

<b>Objectives</b>	<b>Accounting Policies</b>
Presenting an image more attractive to investors  In general companies show a growing interest in this goal	<ul style="list-style-type: none"> <li>- It can be obtained by registering increases in fair values of assets valued at revalued amount, but not the reductions in fair values too.</li> <li>- The revaluation of certain assets, not the whole class.</li> <li>- Capitalization of interest costs regardless of the requirements for capitalization.</li> <li>- Capitalization of development costs even if they are not feasible.</li> <li>- Recognition in the balance sheet of unfinished research projects carried at the acquisition of companies.</li> <li>- Recognition of investment subsidies to be received.</li> </ul>
Reducing losses published  Information management forecast	With provisions Increasing the difference between the book value and the purchase price of the asset. Impairment of non-financial assets.
Minimizing taxable income	Profit grow will lead to higher income tax expense. Thus, smaller companies prefer profit optimization.
Reducing current earnings Big bath  Strategic management earnings	<p>For the coming year increase in earnings gap seem more significant</p> <p>When recording a loss in last year's loss with increasing recourse to other probable future losses, earning for the coming year look bigger.</p> <p>The increase in provisions for a decreasing influence outcome.</p> <p>Similarly, in case of change of leadership, to manipulate the perception of some big gains in the next period of change management, they amplify the current year loss.</p> <p>Taking a loan Concealment company performance</p>
The rise in current result	If the calculation of managers' remuneration is

	based on the accounting result; then it can be influenced. If managers are shareholders, then this practice is discouraged. Decreased provisions in one poor year lead to the earnings increase.
Influencing distributed benefits	Revenue growth through new entry or asset growth, lead to increasing benefits and increasing spending and debt leads to lower benefits distributed.
Minimizing the volatility of accounting results	By registering higher provisions during performing years and can be reduced during poor years.
Smoothing income	Provisioning

(Source: Authors processed information)

There are situations when financial statements are being manipulated in order to comply with the management requirements of performance.

#### 4. Conclusions

Specialists use their knowledge in accounting to choose policies or interpretations that can support them in handling financial results. These situations occur to comply with the management requirements of performance.

As Truică & Trandafir (2009) [11] stated, managers take decisions that have to equilibrate their goal for improved business performance with the shareholders appetite for risk.

Administrators are the ones who make the accounting choice, and they handle it. From this statement, we've found out that accounting option can be controlled by reducing the risk of fraud by various factors:

- The existence of a strong corporate governance system implemented in the firm can reduce the fraud risk for the financial statements, avoiding the abuses in choosing the accounting policies with the intention to manipulate the financial results.
- The existence of the internal audit department – in the companies where this department exists the probability of making-up the financial statements is low.
- The existence of a sufficient number of independent members of the boards, separate roles of Chairman

and CEO in the companies,

- We recommend preventing fraud by evaluating the frequency of the internal control system and the use of continuous auditing.

#### 5. Acknowledgements

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## Accounting Systems in the Organizational Culture Context

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### Abstract

*The work aims to present the accounting systems most popular worldwide in a synthetic manner, emphasizing the differences between them. The authors also try to present the accounting systems characteristics in the relation with culture, using a comparative analysis to distinguish their particularities. A brief presentation of accounting standards is also concluded in the context of convergence attempt of the Principles defining Continental accounting system and the Anglo-Saxon one.*

**Key words:** accounting system, accounting principles, IFRS

**J.E.L. classification:** M41, M48, M14.

### 1. Introduction

Accounting is not only about methodologies, accounts, financial situations, but also is about regulations and standards regarding the accounting profession.

The differences occurring in practice come firstly from adopting the International Financial Reporting Standards (IFRS) or the General Accepted Accounting Principles (GAAP).

The accounting system represents the set of manuals and computerized accounting methods, procedures, controls established with the aim to unify, register, classify, analyse, summarize, interprets, accurately and periodically present financial data with the goal to take the managerial decisions. (<http://www.businessdictionary.com/definition/accounting-system.html>) [1]

We conduct a qualitative comparative analysis of the main accounting systems and

emphasize the factors that influence the practice. The national culture, and organizational culture lead to specific accounting options and then these practices transforms in regulations.

### 2. Comparative analysis

According to the presentation method, we can classify the accounting systems in:

Single entry – registering all operations regarding the patrimony or revenues in a unique account.

Double entry – the registration of every operation in two complementary accounts at the same time. This system can be carried out in full or dual-tier, two circuits.

From the organization of the accounts perspective, we can distinguish:

The tier system – it refers to organizing the financial accounting and management accounting in a single circuit.

The dual system involves two separate accounts for the financial and management accounting.

The accounting system represents the framework that allows achieving the objectives set in the accounts:

- Registering operations
- Classifying operations – in the ledger accounts
- Resuming operations – trial balance
- Synthetizing operations – in the balance sheet and profit and loss account
- Preparing the financial situations
- Interpreting and analyzing the financial situations.

There are various factors influencing the national accounting system:

- Culture and the external environment

where the company operates

- Economy
- Politics
- Justice
- Education
- Religion [2]

Also, accounting practice is different in space; there are several types of accounting systems.

According to the organizational culture and the International Accounting Standards we can distinguish the most popular are the French accounting system, the Anglo-Saxon, and the oriental one.

The United Kingdom, The United States, Canada, Australia, New Zealand and Israel use the **Anglo-Saxon system**.

In this kind of system we notice the trends of free market use, that practice is the most important in generating regulations and the promotion of general prosperity.

One main characteristic is the debt financing or external financing, meaning taking a loan with the obligation of pay it down on a specific date with interest.

In the same time, the Anglo-Saxon system encourages comprehensive disclosure.

The **Continental European** accounting system or **French** model operates in France, Austria, Switzerland, Belgium, Spain, Italy, Portugal, Germany and Japan.

In the continental system the state governs regulations, the taxation is strictly linked with accounting, and maximizing profit is the aim and wealth distribution.

Compared with the Anglo-Saxon model, this one promotes the inside financing, through reinvesting profit, improving credit controls.

The **oriental system** operates in the Muslim states.

The accounting in the Islamic states has several characteristics and objectives distinguishing it away from traditional accounting. (Ather & Ullah) [3]

Shariah’ is the Islamic law, based on the Qur’an, the traditions – Sunnah and on

explanations and interpretations of the Islam experts. The accounting rules are developed from Shariah’.

Pursuant the Islamic cultures, some of the economic activities from certain fields are illegal:

- Production and sale of alcohol;
- Gambling, betting, lotteries,
- Any transaction involving interest (riba)
- Robbery, theft, fraud, begging
- Export smuggling
- Brothels and assimilated.

A fundamental concept of Islam is the “Zakat”, meaning the contribution to the welfare of the poor, helpless ones. (Ather & Ullah) [3] The Zakat is a religious obligation, not a fee or tax, and gets paid by every sane Muslim person, who exceeds a financial limit, named “nisab”, that can be measured in a certain amount of pure gold. In other words, it represents the annual payment effected by the wealthiest to the poorest. There are several methods establishing the due amount, and the Zakat has consequences in accounting and it is collected in banks.

In Islam, the core rule in business is the honesty and correctness in making business. The businessman it is supposed to be of high moral principles that will not disappoint or exploit the others.

The economic Islamic system allows people to earn their existence in a correct and profitable environment without exploiting the others. In the Islam world, the accounting was created as an instrument that intensifies the correct use of profit. (Malekian) [4]

Here we cannot talk about a certain influence of culture over the accounting since the culture generated the accounting. From the accounting politics perspective, we can distinguish direct connections between the culture and the accounting practices. The organizational culture influences companies’ activity and their processes.

*Table 1 – Particularities of the accounting systems*

<b>Accounting differences</b>	<b>Continental system</b>	<b>Anglo-Saxon System</b>	<b>Islamic System</b>
Institutional, legal framework	General Accounting Plan (based on accounting codes, rules,	The conceptual framework of accounting (based on	Qur’an, the Sunnah (tradition) or Shariah’ Code.

	laws) Roman-Germanic written law	traditions and customs) Common law	
Principles	Works on laicism and capitalism principles and laws	Principles based on Standards and Regulations	Concepts based on Shariah’ principles
Information disclosure	Limited Communication, creditors and state bodies oriented; Disclosing the public interest information	Investors Individualistic approach	Community spirit, the full disclosure of information, acc. Shariah’
Aim of the business	Profit maximization		Setting the correct, reasonable profit
	Results centred, focus on the objectives at the expense of natural environment	The success of the most adaptive, performing one	Harmony with Nature
Prominent Accounting principle	Prudency principle domination; the taxation influences disclosing decisional accounting information	“True and fair image” principle and “Substance over form”	
Lenders	Bank creditors	Investors	Islamic banks through - Murabaha: cost plus financing for short-term; the seller shares the market (true) cost of the product to be sold and together with the buyer they agree a profit margin - Ijara: the leasing - musharakah/ mudarabah: sharing model.
Taxation	Connected to taxation there is financial accounting and management accounting; It seeks state fiscal interest; There is a tendency to underestimate profit aiming minimizing the tax to be paid and follows an increase in depreciation and provisions	Disconnected from taxation; Insignificant participation of the state in the accounting regulations; Customized accounting, by the needs of investors	There is no difference normative and descriptive bookkeeping. Accounting works in the public interest; that exploit community resources.
Guidance of information	Information addressed to state bodies, firm creditors, and investors	Information is given to the shareholding interest, less to society	Communication oriented towards community, society

Role of liberal accounting profession	To be elaborated, accounting rules are following the legislative process & economic reasoning	Reglementation it is made through the liberal accounting profession & professional reasoning	Supremacy of God
Economic entity	The firm and the shareholders are different entities, with obligations likewise; the owners are not responsible for the indebtedness of the entity.		The entity doesn't have separate financial obligations. The owner is debtor for the indebtedness of the entity in case of bankruptcy, and this reflects on the family and legal heirs
Historic cost principle	Historic cost is preferred to market price		Market price is preferred
Going-concern principle	The entity continues the activity permanently		Entity continues the activity not permanently but based on the contractual obligations of the parties
Conformity	IFRS regulation	GAAP	Shariah'
Accounting period	Calendar year; recurrent evaluation of the accounting performance	Accounting exercise lasts for on year, not necessary the calendar one	Lunar year for the Zakat calculation
Reporting	Limited reporting tendency: pursuant to used governance; reports on taxation and legal requirements	Trend of broad publication; meets the needs of financial markets; reflects the economic reality; economic reporting of events and transactions	Reports the socio-economic and religious events and transactions

Source: information processed by authors from the revised literature

### 3. Harmonization & Convergence

Regarding the conformity, the principles used in the Continental and Anglo-Saxon system, we will synthetically present their background and the general tendency of convergence.

The International Accounting Standards Board (IASB) is the organization issuing the International Financial Reporting Standard (IFRS), applied in multiple countries, excepting the United States. The body setting the accounting standards – Generally Accepted Accounting Standards (GAAP) in the US is the Financial Accounting Standards Board (FASB).

Harmonization refers to merging the accounting regulation at European Union level. For touching this goal, the European directives were issued.

Convergence aims reducing global accounting differences, namely between the US GAAPS and IFRS.

In 2002 IASB and FASB, under the Norwalk agreement settled a converging program of IFRS and GAAP. The term is 2016, and parts of the projects were accomplished. We talk about standards convergence because of a global economy.

Nonetheless, even more states choose to adopt the IFRS, from 110 (2002) to 150 (2016) countries, still it's impossible to have a uniform accounting due to cultural

differences and from here, accordingly behaviors. Culture cannot ever harmonize, and neither should be. When we talk about the culture we talk about the way of making business, the accounting, auditing, legislation, nationalism and interpreting the standards using different language.

Further study should conduct on this topic.

#### 4. Conclusions and further research

In a global economy context, either of the accounting system we use, there are some common issues to consider:

- cost effectiveness,
- a good revised system of internal control,
- functional internal audit,
- willingness and adaptability to change,
- adequacy and merge with existing organizational culture of newly adopted practices.

As Drumea (2008) [5] admits, none of the standards is faultless and neither the conduct adopted in applying it or the accounting systems.

Ethics is a major aspect to consider in the accountancy profession. Highly ethic standards in this field will diminish the fraud risk.

We shouldn't forget the Big5 (back-then) organizations that audited the companies involved in the well-known financial corporate scandals:

*Table 2 – corporate scandals and the auditors engaged*

Companies	Auditors
Waste Management (1998)	Arthur Andersen
Enron (2001)	Arthur Andersen
Worldcom (2002)	Arthur Andersen
Tyco (2002)	PriceWaterhouseCoopers
HealthSouth (2003)	Ernst & Young
American Insurance Group	PriceWaterhouseCoopers
Lehman Brothers (2008)	Ernst & Young
Bernie Madoff (2008)	KPMG

Parmalat	Deloitte Tohmatsu	Touche
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Source: Authors' selection from available literature

From this point of view (diminishing fraud risk) we should consider a common accounting system, with transparent requirements, fair principles, with less room for interpretations. We can suggest a closer look at the Islamic system and business behavior.

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## Analysis of Correlation between Gross Domestic Product and Value Added Tax in the European Union Countries

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### Abstract

*The purpose of this paper is to analyze Gross Domestic Product and Value Added Tax in European countries for the period 2002-2012. The main objectives taken into account by the article were to presenting the theoretical point of view of Gross Domestic Product and Value Added 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 and the statistical data on the website of the Ministry of Finance. The expected results are to establish a link between Gross Domestic Product and Value Added Tax by the F-test significance of the linear correlation coefficient. Our approach turned to research methods like literature review, descriptive analysis, comparison, case study, the interpretation of data, statistical study and graphical representation.*

**Key words:** Gross Domestic Product, Value Added Tax, F – test

**JEL Classification:** D12, C58, G21

### 1. Introduction

This paper presents the evolution in the countries of European Union GDP and VAT for the period 2002-2012. The work begins with the presentation of a theoretical perspective of the two indicators: definition, their development both at EU level (28) and in Romania, ending with the analysis of the correlation between Gross Domestic Product per capita in PPS and Value Added Tax as percentage of Gross Domestic Product using the F-test significance of the linear correlation coefficient.

Gross Domestic Product (GDP) is a measure for the economic activity. It is defined as the value of all goods and services produced less the value of any goods or services used in their creation [1].

Value Added Tax (VAT) is the main indirect tax levied on net turnover, which means the difference between output (sales of goods, services) and inputs (purchases of goods and services from third parties), which is a margin of accumulation at the enterprise level, called added value (surplus value created by an economic agent over the amount of external purchases) [2].

Sălceanu Alexandru (2014) present the concept of VAT between theory and practice. VAT as the main indirect tax generated by commercial transactions of goods and services, represents the most important resource in the EU Member States' budgets. According to calculations of the Fiscal Council made on the basis of data provided by N.I.S, in 2012. tax evasion in Romania was 16.8% of GDP, of which tax evasion generated by VAT was 8.3% of GDP. Due to this alarming situation, the state loses considerable resources and thus is forced to increase the tax burden on other taxpayers. In this context, the parliament who elaborates laws, the government who implements and the business environment that generates VAT must work together more closely in order to implement the appropriate measures to increase VAT revenues to the state budget [3].

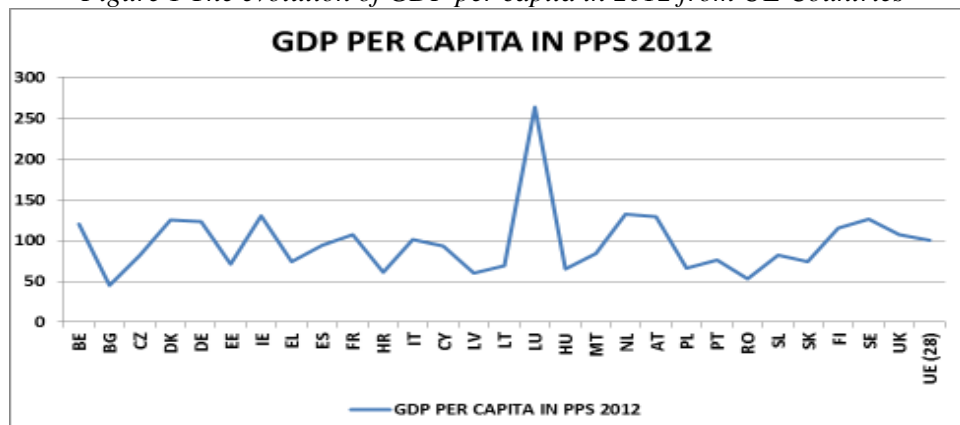
### 2. Analysis of Gross Domestic Product in the European Union

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. According to Iuga et

all (2013), Gross Domestic Product shows the economic activity in a country [4].

Related to this indicator, from the figure 1, the following can be noticed:

Figure 1 The evolution of GDP per capita in 2012 from UE Countries



Source: own processing after Eurostat data

The highest values of the GDP per capita in the year 2012 are in Luxembourg (265%), Austria (129%) and Sweden (126%) and the lowest in Bulgaria (45%) and Romania (53%).

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%).

### 3. Value added tax - at national and European level

Over time the value added tax also known by other names, such as: tax on movement of goods (1993), turnover tax or general sales tax (after World War I).

Tax on global consumer spending; have established way as turnover tax. As regards indirect taxes, the tax burden is set directly on the drinker but on the turnover of his supplier. Along with this tax are often practiced and special taxes on certain consumer spending, thus there are three types of special taxes on: essential goods (salt, bread, and sugar), luxury goods (jewelry), current consumption expenditures (wine coffee, cigarettes) [5]. All these taxes have generated adverse effects being sharply criticized by specialists and thus it was concluded that these taxes be recognized as the VAT.

Value Added Tax was first adopted in France on the initiative of Maurice Laure, in 1954. In subsequent years this tax has spread to several countries in Europe, Latin America and Africa etc. The Financial Commission of the European Community proposal was

adopted VAT on 1 January 1970 by all countries of the Common Market, replacing the tax on movement of goods [6].

Value added tax has the following characteristics: it is an indirect tax general; is a tax neutral to prices, it does not allow any discrimination, apply to all activities in the form of quotas; It is a single tax, but pay fractional, is universal because it applies to all goods and services in the economy [7].

In Romania VAT was introduced from 1 July 1993 in place on the movement of goods tax [8].

Once Romania joins the European Union, VAT application is made under Directive 112/2006, which was taken in the legislation of Romania [9]. In this period it was necessary to make a distinction between transactions in goods made in the Community and operations outside the Community, so that some operations have acquired new names.

According to Romanian accounting rules, VAT is an indirect tax owed to the state budget [10].

Currently, in Romania there are three VAT rates:

- **standard rate is 24%** applied for most taxable transactions;

- **reduced rate is 9%:** for access into castles, museums, memorial houses, historical, zoological and botanical gardens, fairs, exhibitions and cultural events, cinemas delivery of textbooks, books, newspapers and magazines, delivery of human and veterinary drugs, accommodation in the hotel sector or

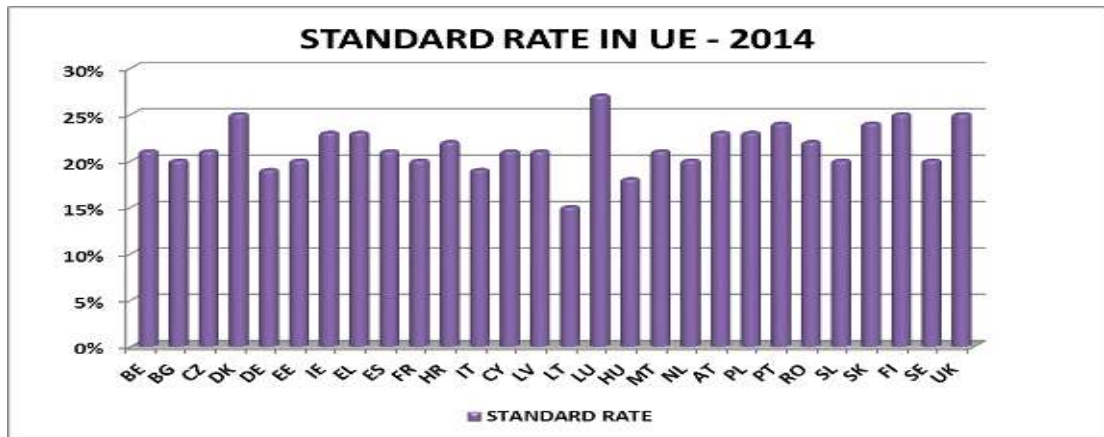
sectors with a similar function, including renting land for camping, delivering bread and desserts;

- **reduced rate of 5%** applies to the taxable amount for the supply of housing as

part of social policy, including the land on which they are built [10].

In the European Union member countries the standard VAT rate recorded different values, as described in the figure below:

Figure 2 VAT Level in EU countries in 2014



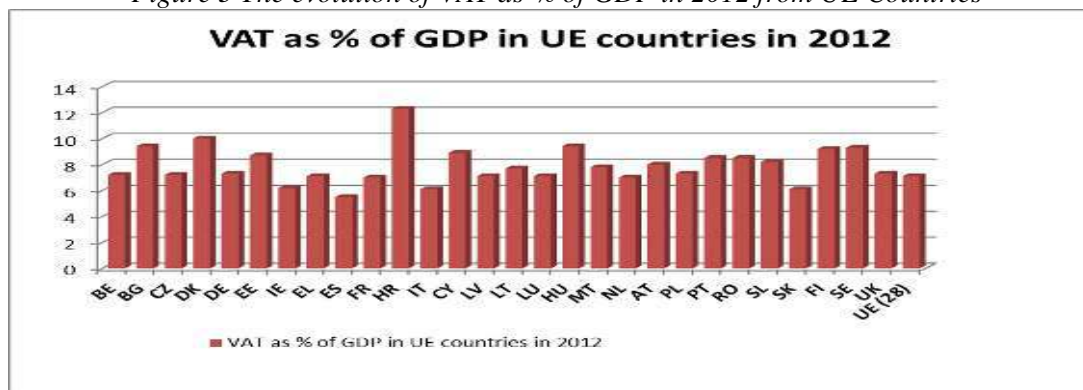
Source: project carried out by the author after data collected by the ec.europa.eu/Eurostat, accessed on February 25, 2015

From the above chart we can see that the highest level of VAT of 27% is registered in Hungary, followed by 25% in Denmark, Sweden and Croatia. Lowest VAT rates recorded in Malta and Cyprus 19%, Luxembourg 18% and 15% in Luxembourg.

In Romania compared to EU countries the VAT rate remains at a high level (24%) hovering over EU share (28) of 21.5%.

VAT as % of GDP at the European Union countries is present in the figure 3:

Figure 3 The evolution of VAT as % of GDP in 2012 from UE Countries



Source: own processing after Eurostat data

According to Eurostat the highest rates of VAT receipts to GDP in the year 2012 located in Croatia (12.3%), Denmark (10%), Hungary (9.4%) and lowest in Ireland (6.2%), Slovakia and Italy (6.1%), Spain (5.5%). The share of VAT receipts to GDP in Romania is 8.5% higher than the EU28 rate of 7.1%.

#### 4. The Analysis of the correlation between GDP per capita and VAT 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 the VAT as % of GDP in European Union countries in the period 2002-2012 with the help of the F-test



of significance of the linear correlation coefficient. In our case: X – GDP per capita, and Y – VAT 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 1 Correlation matrix

X \ Y	50	150	250	TOTAL
12.5	12	7	0	19
7.5	121	100	9	230
2.5	0	1	0	1
TOTAL	133	108	9	250

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)	$\sigma_x^2$
100.4	7.86	783	-5,238	3,219.84

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 250, with respect to the variables X and Y, the linear correlation coefficient estimator is obtained  $\hat{R}_{01}$ .

$$\hat{R}_{01} = \sqrt{1 - \frac{\det M}{m_{00}m_{11}}} = \frac{\text{cov}(x, y)}{\sigma_x \sigma_y} \quad M = \begin{pmatrix} m_{00} & m_{01} \\ m_{10} & m_{11} \end{pmatrix}$$

Where:

$$\sigma_x^2 = \frac{\sum_{i=1}^R (x_i - \bar{X})^2 N_i}{\sum_{i=1}^R N_i} \equiv m_{00}$$

$$\sigma_y^2 = \frac{\sum_{i=1}^R (y_i - \bar{Y})^2 N_i}{\sum_{i=1}^R N_i} = m_{11}$$

$\sigma_x^2$	$\sigma_y^2$	$\widehat{\det M}$	$\hat{R}_{01}$
3,219.84	1.87	-21,415.64	2,13

$$m_{10} = m_{01} = \text{cov}(X, Y) = M(X \cdot Y) - M(X) \cdot M(Y) \equiv -5,238 \quad F = \frac{R_{01}^2 \cdot (n - 2)}{(1 - R_{01}^2)}, \quad \text{which}$$

$$\widehat{\det M} = m_{00} * m_{11} - m_{10} * m_{01}$$

Since  $\hat{R}_{01} = 2.13 \Rightarrow R_{01} \neq 0$ , 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,

follows Fisher's law of probability, with  $\nu_1 = 1$  and  $\nu_2 = n - 2 = 250 - 2 = 248$ , degrees of freedom.

4. Based on a risk or a materiality value,  $\alpha = 5\%$ , we determine from Fisher's

table, corresponding to  $\nu_1 = 1$  and  $\nu_2 = 250 - 2 = 248$  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:

$$F_{calc} = \frac{\hat{R}_{01}^2 \cdot (n - 2)}{(1 - \hat{R}_{01}^2)}$$

= -317

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 VAT as % of GDP* for a materiality value of 5%.

## 5. Conclusions

From the analysis of GDP per capita in the countries of the European Union in 2012, 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 VAT share in GDP we notice that the highest values are in: Croatia, Hungary, Sweden, Finland and Bulgaria. The value in Romania at the VAT as% of GDP is 8.5% over the value recorded by the EU (28) of 7.1%.

Calculating the GDP per capita and VAT 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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## Conceptual Approaches Concerning the Internal Control under the Conditions of a Global Economy

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### Abstract

*Viewed as a whole, the control system of the enterprise has as many structural components of organizational forms, rather than one each other through specific objectives and the means used to achieve them. These forms give control of a certain size, which is made in a direct relationship with the concerns of the enterprise to cope with the diversity of situations and that it has to face.*

*In turn, the organisation can be regarded as a global unit where there are distinguished three main subsystems: the technological, managerial and decision-making information. She builds a unified defense system, as the complexity of the environment in the reflex that works, comprising several elements located at the levels of the organisational structures. This system is known as internal control or control and, generally, all the rules and procedures which shall be implemented in the interest and for the protection of the entity.*

**Cuvinte cheie:** internal control, process, system, objectives, internal audit

**Clasificare J.E.L.:** M10, M42

### 1. Introduction

Internal control is the primary objective of the internal audit activity's audit practice, must take into account in determining the reliability of all financial and operational information, the assessment of controls that

are intended to protect the company's assets, to assess the conformity of devices relating to results of operations with the goals and objectives set out, to come to the aid of management to achieve the aims of the entity.

Internal control was defined as the ensemble of policies and techniques used by management to protect the company's assets and to ensure the accuracy and reliability of accounting records. It also includes the assessment of efficiency of operation and compliance with management policies. In other words, not only is the safety management of assets and the reliability of the accounts, but also carrying out a task efficiently and in accordance with its policies and entirely, and with the wishes of its people.

Internal control comprises five components closely interrelated with each other, arising from the manner in which they are administered, and activities that are integrated:



Figure no. 1 „Components of internal control”

Examination of the functioning of the system of internal control is conducted for all activities conducted within the public entity and includes supervisory activities, comparisons, reconciliations, etc. The shortcomings existing management are communicated to the appropriate measures for the purpose of disposing of them[1].

## 2. Objectives and general requirements of internal control

The general objectives of internal control are:

- implementation of duties imposed on entities in accordance with their own mission, at an appropriate level of quality, in terms of regularity, efficiency, effectiveness and efficiency;
- protect public funds against losses caused by errors, waste, abuse or fraud;
- enforcement of the rules and decisions of leadership;
- development and maintenance of systems for the collection, storage, processing, and distribution of updated data and information management, and financial and information systems and procedures, appropriate public.

Implementation of internal control activity requires completing the following *steps*:

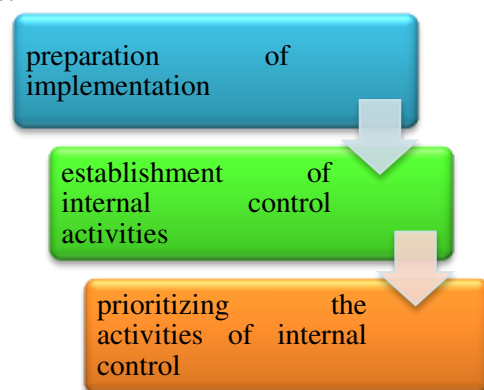


Figure no. 2 „Steps for implementation of internal control”

General requirements of internal control are:

- general objectives through systematic evaluation and maintaining an acceptable level of risk associated with the

structures, programs, projects or operations;  
■ to ensure a cooperative staff attitudes and driving execution;

■ ensuring the integrity and competence of management and staff, had the knowledge and understanding of the role of internal control;

■ setting specific objectives of internal controls so that they are appropriate, comprehensive, reasonable and integrated mission of the institution and its overall objectives;

■ continuous surveillance by the staff of all the activities and performance of the staff of the obligation to act promptly and responsibly, corrective whenever infringements of legality.

## 3. Essential components of an effective internal control system

The five essential components of a system of integrated and effective internal control are[2]:

■ control environment that sets the Foundation of internal control system;

■ definition and risk assessment, which involves the management of a company to identify and analyse the risks that may impede the achievement of predetermined targets;

■ actual control activities, which are nothing more than the policies, procedures and internal work instructions to ensure that achieving the targets and implementation of risk reduction strategies;

■ information and communication activities and their results, which are factors support for employee training with respect to the responsibilities of control, in a manner and time period to enable them to apply them in current activities;

■ Monitoring, which is an external verification of the internal controls, carried out by both sides involved in the process, such as the internal audit department as well as by employees as part of a process, by applying work methodologies such as standard checklists or individualized procedures.

Internal control applicable throughout the operations of the entity, thus[3]:



Figure no. 3 „The operations of the entity”

- *previously to completion* of the operations, on the occasion of drafting the budget, which will allow the subsequent completion of the operations, budgetary control;
- *during operations*, for example, as regards the determination of the percentage of the physical realization of the production in progress or recorded in the percentage of scrap;
- *after completion*, in which case verification is intended, for example, to analyze the profitability of the operations and to check the existence of conformity or any abnormalities, which should be corrected.

#### 4. Assessment of internal control

The human resources policy of the entity must be aimed at issues such as: recruitment of qualified personnel, managing careers, lifelong learning, individual assessment, counselling employees, promotions and corrective actions.

Control activities are an integral part of the management process through which the entity seeks to achieve the proposed goals.

Controls shall relate to the application of rules and internal control procedures at all hierarchical levels and functional: approval, authorization, verification, assessment of operational performance, secure assets, separation of functions[4].

Evaluation of internal control is based on the issues such as:

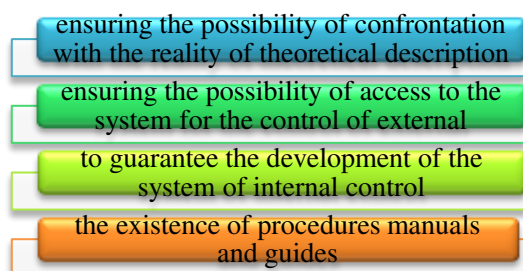


Figure no. 4 „Evaluation of internal control”

#### 5. The report on the internal control

In a computerised environment internal control is based on the issues such as:

- the existence of a formalized information strategies developed with the involvement of operational leadership;
- leadership involvement and awareness increased risks to or generated by computer science;
- the allocation of resources that demonstrate the ability of the computer system's ability to achieve its objectives;
- recruitment of personnel with a level of expertise adapted technologies used and the existence of a continuous training plan must permit an update of knowledge

Specific risk elements, introduced by the use of computational science, refers to an appreciation of issues such as:

- ✚ the level of dependency of the establishment of its computer system, with the influence of continuity of operation, when the addiction is too high;
- ✚ the level of confidentiality of the information exchanged by the system;
- ✚ the obligation of compliance with the provisions in force relating to taxation, protection of intellectual property, or specific rules for certain sectors of activity.

Internal accounting and financial controls of the entity shall apply in order to ensure sound management of accounting and financial activities of its chases, to meet the defined objectives. Internal accounting and financial controls is a key component of internal control. It is aimed at all the processes of production and communication of financial and accounting information and contribute to the establishment of a reliable and consistent information on the legal requirements.

As internal control in general, he relied on a system comprising in particular the development and implementation of policies and procedures in the field, including control and monitoring system.

Internal accounting and financial controls aimed at ensuring[5]:

- ⊗ completeness of the financial and accounting information published, with the rules applicable to them;
- ⊗ application of the instructions drawn up by management in connection with such information;

- Ⓢ protecting assets;
- Ⓢ the prevention and detection of fraud and irregularities and financial accounting;
- Ⓢ reliability of information disseminated and used internally for the purpose of control, to the extent that they contribute to the development of accounting and financial information published;
- Ⓢ the reliability of annual financial statements and other published information disclosed to the market.

## 6. Conclusions

Lessons learned from the above analysis, are as follows:

- internal control of the enterprise is a complex system and vigilance unit, built in order to help guarantee the effectiveness and efficiency of the management process;
- the existence of various types of discharge may cause some peculiarities in the Organization of internal control without affecting the content as a whole, in the sense that in small and medium enterprises, the Organization of responsibilities and decision-making structure is less complex in large enterprises;
- internal control system put into question different horizons, which relate to the objectives, instruments, standards and rules, allowing the company to reach its goals;
- components of internal control does not have a single rationality with both financial and technical, administrative and economic;
- the internal control process cannot be viewed outside of the global information structure of the enterprise;
- the mission of internal control to participate in enterprise management is achieved through devices that constitute forms of control of the same system.

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## Monetary Policy of Quantitative Easing in United Kingdom

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### Abstract

*In the context of economic crisis, monetary policy makers are facing several challenges, the most important being the selection and implementation of the best monetary policy. Lately, monetary policy resorted increasingly to the use of unconventional measures, as more conventional measures had largely lost their effectiveness. Quantitative Easing is one the most widely used measure of unconventional monetary policy.*

*This article presents the measures taken along the recent crisis, to ensure an overview of the main theoretical aspects that encourage the use of unconventional measures and to highlight their efficiency, focusing on those adopted by the Bank of England. It describes the Bank's asset purchase programme, that began in 2009, in response to the intensification of the financial crisis.*

**Key words:** monetary policy, quantitative easing, crisis, UK.

**J.E.L. Classification:** E52, E58.

### 1. Introduction

After the financial crisis from 2008, the confidence in the world economy has fallen sharply, international financial markets have become dysfunctional and credit conditions have tightened. In response to the intensification of the financial crisis, several central banks have developed and implemented a set of unconventional monetary policy, to enhance market liquidity and to stimulate economic growth. Unconventional monetary policy takes many forms, among which we mention: forward guidance, quantitative easing and credit easing.

The unconventional monetary policy from United Kingdom was mainly represented by the policy of asset purchases financed by central bank, policy called Quantitative Easing (QE).

QE is the monetary policy where the central bank creates new electronically money, to buy financial assets, like government bonds. This process is intended to raise the private sector spending and to return inflation level to target. Central bank acquires government securities or other securities from the market, with a view to reduce interest rates and to raise money supply. QE raises the money supply by making a capital infusion in financial institutions, in order to encourage lending and liquidity. QE is utilized when short-term interest rates are at zero level, or approaching zero, and do not require printing of new banknotes. [7]

The main idea of QE is to decrease the costs of private borrowing by large-scale acquisition of privately issue debts, in the place of public debts. [1]

Bank of Japan used for the first time QE in the early 2000s, to fight domestic deflation. After the global financial crisis of 2007–2008, QE have been used by the United States, the United Kingdom and the Eurozone, too.

### 2. Transmission mechanisms of Quantitative Easing

We classify the various studies, depending on which they measure the impact of non-traditional instruments on: (i) financial variables and (ii) macroeconomic variables.

Further, we present the measures taken in the UK, US and in the euro area, along the recent crisis, to ensure an overview of the main theoretical aspects that encourage the use of unconventional measures and to highlight their efficiency.

These measures are transmitted by two channels: the signalling channel and the portfolio-balance channel.

- The signalling channel, which allows central bank to communicate, in order to restore market confidence and to affect the private expectations regarding the future policy decisions. Usually, this channel is helpful when official interest rates are at the zero level and the central bank wants to give a boost to the economy.
- The portfolio-balance channel, through which the economy is affected, because private and public securities are bought and because they are given loans to the financial and non-financial institutions. This channel acts when the assets and liabilities of private sector balance sheets are imperfect substitutes. The central bank can use this channel, when wanting to reduce tensions in particular segments of the financial markets, when trying to cut yields and when establishing to prevent and counter the effects of financial frictions on financing conditions.

Cullen O. Roche identified the transmission mechanisms of QE, that can alter the future economic outcomes [2]:

- QE can alter long-term interest rates, which can influence private investment and the creditworthiness of the private sector.
- QE has a powerful psychological impact on both asset prices and the economy and can alter expectations of future economic outcomes. Some economists call this the “expectations channel” or forward guidance effect.
- QE involves a portfolio rebalancing effect, where the central bank’s intervention in the outstanding private sector assets can alter the asset options for private portfolio composition. Some economists refer to this as the “wealth effect”.
- QE alters the composition of the private sector’s assets by changing the “moneyness” of the private sector’s assets. Some might call this “monetization”.
- QE can directly alter the value of

private sector assets which can have wide ranging portfolio effects. In this regard, a central bank acts as a market maker and lender of last resort, which can be an extremely powerful policy tool when credit markets are unstable.

### 3. Economic Impact

QE may lead to an inflation level, higher than desired, if it is purchased an overestimated volume of liquid assets. Also, if banks do not want to lend money to businesses and household, QE has the risk not to increase demand. Even in this situation, QE can further facilitate deleveraging process, as yields fall.

But, between monetary growth and inflation appear a time gap. If the economy of the system outgrows the growth rate of eased money supply, then the inflationary risks can be attenuated.

When the increase of production relies on higher money supply, it may cause the foreign currency appreciation and the national currency depreciation, even if there is enough currency on the market. So, depreciation is advantageous for the exporters from the country with QE policy, and for debtors. On the other hand, is disadvantageous for importers, because they import at a higher price, and for creditors, too.

Some economists consider that QE is a factor that may cause unpredictability. The growth of bank reserves increases the supply of money only after a certain period of time, so that meanwhile, the reserves too high, when are borrowed, are a risk for rising inflation.[4]

It was observed that in countries that have implemented QE policy, there are more jobs and a higher GDP.

### 4. Quantitative Easing in UK

In UK, Bank of England’s Monetary Policy Committee, chaired by the Governor, is the QE policy maker.

This policy imply the fact that new money are created electronically by the Bank of England and with them are acquired gilts from private investors, like insurance companies and pension funds. Because of



low yield return, these investors are unwilling to hold on to this money, so that they will buy other assets, such as corporate bonds and shares. So, the borrowing cost on long term are smaller and the issuance of new equities and bonds are higher, and all this encourage spending.

In case there is a low demand, inflation is affected. So, to reach inflation target of 2%, the monetary policy of QE is useful. The QE aims to decrease interest rates and to stimulate businesses finance, without resorting to bank loans. [5]

The Bank of England Asset Purchase Facility was announced on 19 January 2009. It became an instrument for monetary policy in March 2009, when the Bank of England's Monetary Policy Committee (MPC) used for the first time the monetary policy of QE. MPC decreased the official interest rate as much as possible, to 0.5%, the minimum allowable limit, in terms of the Bank of England. Currently. In present, it is maintained the same limit of 0,5%. In the absence of higher spending, caused by QE, the belief that MPC was that inflation would be more likely in the medium term, to reduce the target. [5]

Since March 2009, MPC acquired a total of £375 billion of financial assets, financed by the issuance of central bank reserves, as follows:

- March - November 2009: £200 billion;
- October 2011: £75 billion;
- February 2012: £50billion;
- July 2012: £50 billion. [5]

The Bank of England's Monetary Policy Committee announced on April 19, 2015, that they maintain the stock of acquired assets at the same level of £375 billion. [6]

Mark Carney, the Governor of the Bank of England, has recently stated (18 March 2015) that the Asset Purchase Facility, created on 29 January 2009, will remain in place for the financial year 2015-2016.

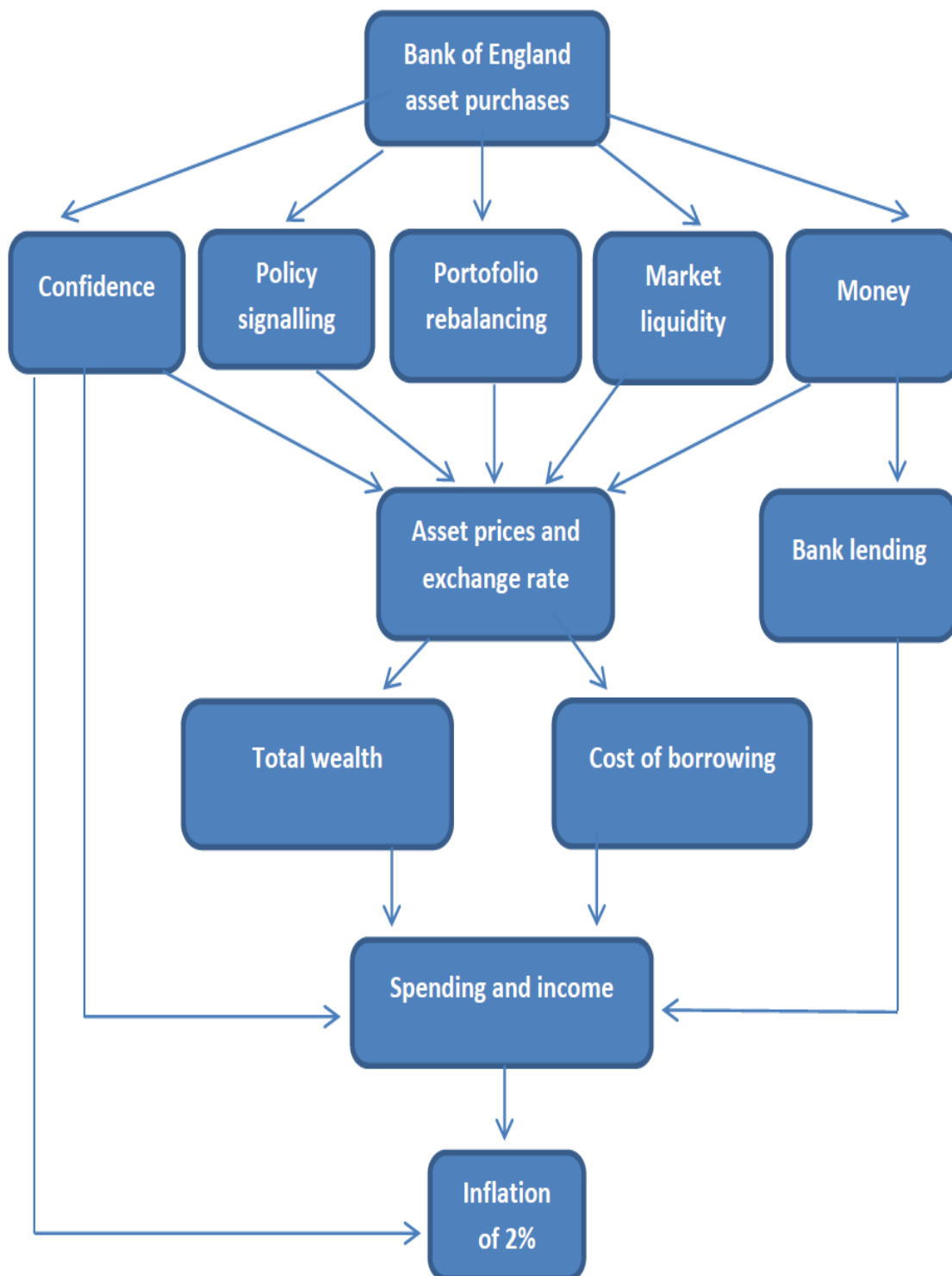
In the future, MPC may decide to increase asset purchases or to begin the process of selling assets back.

In Figure 1, there are presented the potential channels, through which asset purchases may affect the economy. In UK, inflation decreased to 0.5%, below the MPC's 2% target, as shown in Inflation Report of Bank of England, from February 2015.

The macroeconomic effects of QE are quite hard to identify, and especially hard to quantify, because during the crisis, a number of other factors had a significant influence on the UK economy. Another fact that cause difficulty is that QE can take varying forms and can target assets outside the interbank market.

There are some studies that have tried to evaluate the macroeconomic effects of unconventional monetary policies in UK, but the results are highly uncertain. [3] The effects of this policy are still debatable and unknown.

Figure 1. Quantitative Easing transmission channels in UK



Source: Joyce, M.

## 5. Conclusion

A deeper understanding of the role of the different unconventional measures in preventing disruptions and in restoring normal conditions in financial markets is a crucial ingredient for the selection of the instruments, that should be included in the central banks' crisis toolbox. In general, unconventional measures prevented a collapse of the financial system and a deeper contraction of the real economy, as a result of the global crisis.

Quantitative easing is one of the most important unconventional monetary policy, whose purpose is to reduce the costs of private borrowing by large-scale purchases of privately issue debts, instead of public debts.

After we have tried to define the policy of QE, we described the various measures adopted in the UK, US and in the euro area, during the recent crisis.

We did this to ensure an overview of the main theoretical aspects that encourage the use of unconventional measures, in the case of financial distress, and to highlight their efficiency. These measures are transmitted by two channels: the signalling channel and the portfolio-balance channel. Also, we have presented the transmission mechanisms of QE, that can alter the future economic outcomes.

He have focused on QE analysis in UK. We have tried to present how does QE work, the necessity of QE in the UK, the history of QE in the UK and forecasts, too. Also, we have presented the transmission channels of QE in UK.

We have studied the economic impact of QE. Increasing the supply of money can depreciate a country's exchange rate in relation to other currencies, via the interest rate mechanism. Depreciation is advantageous for exporters from the country with QE policy, and for debtors. On the other hand, is disadvantageous for importers, because they import at a higher price, and for creditors. Also, it was observed that in countries that have implemented QE policy, there are more jobs and a higher GDP.

Monetary policy of QE added a new tool to the central bank policy toolbox, that will likely remain an important topic of discussion for policymakers and for economists, too.

## 6. Acknowledgement

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## Equal Opportunities and Gender Equality: Some Considerations on Personal Loan and Insurance Markets

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### Abstract

*Equal opportunities and gender equality are two concepts that refer to two fundamental rights, granted by the European Union. These will be analyzed in this paper in two approaches. One focuses on opportunities in accessing a personal loan, in terms of ‘scoring’ and interest rate strategies. The other emphasizes gender equality and age discrimination in calculating MTPL (Motor Third Party Liability) insurance premiums.*

**Key words:** equal opportunities, gender equality, personal loan, insurance premium

**J.E.L. classification:** G22

### 1. Introduction

Equal opportunities and gender equality are two concepts that refer to two fundamental rights, granted by the European Union. Opportunity equality presupposes equal chances for an individual’s development, regardless of his/her gender, religion, ethnicity, age, (dis)abilities, or sexual orientation, while gender equality signifies the process of evaluating the implications for men and women of any planned action, including legislation and public policies, in all fields and at all levels. The concept of *gender* comprises beliefs, stereotypes, modes of action, social roles and statuses that operate in specific contexts.

Two domains will be analyzed in this paper with a view to establishing whether there is or there isn’t gender and opportunity equality, namely when applying for a personal loan and in the purchasing of an MTPL (Motor Third Party Liability) insurance policy. The paper is structured as follows. Next section focuses on opportunities in accessing a personal loan,

the third section briefly presents figures of Romanian automobile insurance. Gender equality implications in calculating motor insurance premiums and age discrimination are emphasized. The last section concludes.

### 2. Opportunities in accessing a personal loan

In order to qualify, or be eligible for obtaining a personal loan, one needs to evaluate one’s “scoring”. This is an instrument used to determine one’s capacity to pay on time his or her financial obligations resulting from the contracting of a loan or the probability that an individual pays his/her future monthly installments on time.

An applicant’s scoring is estimated with a logistic regression model

$$p_i = P(Y_i = 1) = \frac{1}{1 + e^{\beta_0 + \beta_1 x_1 + \dots + \beta_m x_m}},$$

where  $Y_i : \begin{pmatrix} 0 & 1 \\ 1 - p_i & p_i \end{pmatrix}$  is the random

variable that shows the applicant’s ( $i$ ) reimbursement behavior, where the event of interest is the applicant’s possibility of reimbursing the loan, and where  $Y_i$  follows a *Bernoulli* ( $p_i$ ) distribution. The explanatory variables  $x_i$  may be, among other things, the following: age, gender, socio-professional category, seniority order at the workplace, marital status, the value of previously contracted loans, credit destination, credit history, or the existence of some savings accounts. Theoretical considerations on logistic regression are offered in [1] or [2], mentioning just a few of them.

When analyzing such a “scoring” calculation model, it is possible to observe if some of the explanatory variables are likely to induce opportunity differences, for instance, marital status.

Website [www.efin.ro/credit-scoring](http://www.efin.ro/credit-scoring), [3], offers the possibility to calculate one's scoring with a view to obtaining a personal loan from a Romanian bank. The required information refers to gender, marital status, level of income, other loans, or payment delays' history, and the result is displayed as a score granted to each applicant. Result interpretation is as follows:

- values between 0 and 50 points signify that the reimbursement probability is under 50%, so the applicant cannot be granted a loan;
- values between 50 and 80 points indicate that the applicant could be granted a loan by some banks or financial institutions, as the probability is from 50% to 80%;
- values between 80 and 100 points, which means that the reimbursement probability is over 80%, qualify the applicant for obtaining a loan from the majority of banks or financial institutions.

Together with scoring, someone can obtain also the current level of indebtedness, the maximum amount that one can borrow and, more than that, even possible banks that might be willing to grant the loan, annual interest rate and the value of a monthly installment. Equipped with these results, an individual can have a better picture of his/her own capacity to reimburse a loan.

After simulating different situations, we can notice that gender does not alter scoring value, given that all the other variables remain unchanged. On the other hand, marital status does. For instance the change of “not married” to “married” induces a rise with up to 10 points of one's scoring, consequently the chances to obtain a loan increase significantly. This variable induces the appearance of an opportunity difference in obtaining a loan, as one's spouse is considered a co-payer. Thus, the existence of co-payers (spouse, others) constitutes an advantage in obtaining a loan, for instance when applying for DIVERS BCR personal loan.

One of the characteristics of personal loans is the compulsory purchase of a life insurance policy or of a more complex type of insurance with a view to reducing the proportion of customers who are unable to reimburse the loan. For example, DIVERS BCR personal loan is associated with two insurance policies of this type: a life

insurance policy for the entire period of loan reimbursement, respectively an optional complex insurance policy, to be paid for additionally, meant to protect the customer against unpredictable risks or events, such as: unemployment, involuntary job loss, total and permanent invalidity, or temporary disability. This constitutes a protective measure both for the bank, and for the insured, as well as for the insured's family, all the above benefitting from an increase in opportunities.

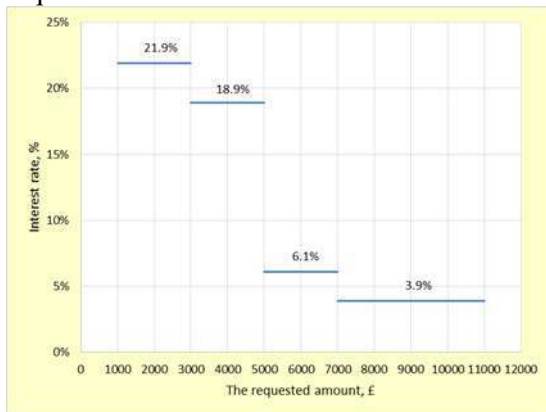
Differences in individuals' opportunities when trying to access a loan arise when we take into account the costs of a similar type of credit from ING Bank: if a Romanian citizen applied for this loan, he/she would have to pay an interest varying between 9.5% and 14.35%, [4], unlike an applicant who is a resident in Luxembourg, who would pay an interest of only 3.79%, [5].

One can notice that in the field of personal loans there are apparently opposed manners and strategies regarding loan granting and interest policy. To illustrate this, two different strategies of two important European banks will be presented below. British bank HSBC grants British citizens personal loans with annual interests emphasizing a downward trend, from 21.9% for loans of up to £1,000, to 3.9% for loans in amount between £7,000 and £15,000, for a 5-year reimbursement period, [6], as we can see in Figure 1 below. This is one of the biggest interest variation favorable to those customers who apply for bigger loans, and it is meant to encourage consumption.

On the contrary, French bank BNP Paribas, considered the biggest bank in the Euro zone, grants Belgian citizens, for instance, personal loans with annual interests rising with the amount requested and with the reimbursement period, [7]. This strategy discourages the population's indebtedness increase and is meant to make the applicant more responsible. Loans granted in these conditions address those who have the right profile and potential to reimburse the amount, accepted by the bank.

These very different approaches are a consequence of both these banks' strategies, and of the impact and of the social stability of the areas in which they operate.

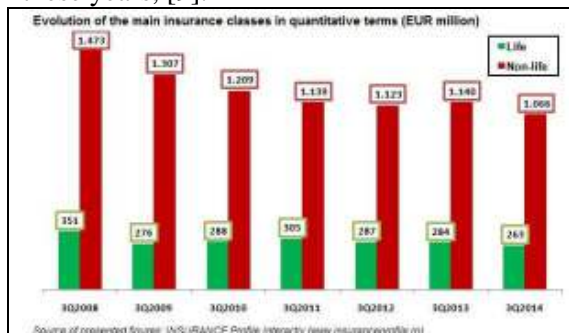
Figure 1. The evolution of annual interest for personal loans with HSBC-UK, on the requested amount.



### 3. Gender equality or discrimination in pricing a MTPL insurance policy

In conformity with the official data from Financial Surveillance Authority (FSA), cited on [www.insuranceprofile.ro](http://www.insuranceprofile.ro), [8], on 11.12.2014, Romanian insurance market hit a low after emphasizing a constant decreasing trend in the last 7 years, as can be noticed in Figure 2.

Figure 2. The evolution of Romanian insurance market, in the interval 2008-2014, figures corresponding to the 3<sup>rd</sup> quarter of these years, [9].



In the first 3 quarters of 2014, gross written premiums (GWP) for automobile insurance, namely MTPL and CASCO, represented 55.3% of the total GWP for general insurance.

In conformity with FSA, in the first quarter of 2014, GWP for the MTPL segment of the market increased by 8.7%, and yet a 131% loss was recorded, [10], in trend with the combined claim rate, which in the last 5 years was in excess of 100%. In figures, the contrastive evolution of the average price and the average cost of damage is the following:

in 2009, the average level of one claim was 1,060 EUR, while in 2014, for the same type of claim the average paid compensation was 1,600 EUR. The average value of MTPL premium evolved as following: from 139 EUR in 2009, to 116 EUR, in the first 3 quarters of 2014, [11].

Following the European Court of Justice resolution from 01.03.2012, starting with 21 December 2012, insurance companies cannot use gender when determining insurance premiums. Until March 2012, gender differentiation was allowed when calculating insurance premiums, both in the case of life insurance, and in the case of general insurance, if actuarial statistics could demonstrate that gender was a significant factor likely to influence the risk taken over by the insurance company, [12].

When establishing premiums in the case of automobile insurance, the immediate effect of the above mentioned resolution consists of uniform or flattened prices of MTPL or CASCO policies, which were differentiated according to gender before 21 December 2012. As a consequence, women ended up paying more than they did prior to that date, although it was statistically proven that they cause fewer and less important damages, while men pay a lower price as compared to the previous price of MTPL policy.

At the end of 2012, in Great Britain conjectures were made that this resolution will generate an almost 25% rise in the premiums paid by women, and a 10% reduction of those paid for by men, and that these changes will be visible in the segment of young drivers. Up to that moment, men paid premiums almost 40% higher than those for by women. In the case of 40 year olds and above the resolution does not seem to induce any differences, as men and women in that age group emphasize similar behavior with respect to claim rate and costs for the insurer, [13].

A possible solution for younger drivers with a less risky behavior, especially for younger women, is “Telematics”, i.e. taking into consideration a driver’s driving style made possible by the setting on the car of an electronic device that will record the driver’s global driving behavior: speed, breaking style, acceleration style, or parking place, among other things. Currently, this solution

is not yet widely available, especially in Great Britain, where it is only offered by few of the insurance companies present on the market, such as Aviva, [13].

However, gender is not the only variable that is taken into account when calculating premiums for automobile insurance. Explanatory or predictor variables likely to influence damage cost and frequency are the following: driver's age, automobile type, number of kilometers travelled annually (in some countries), or accident history expressed as a Bonus-Malus category.

Age is considered a critical factor, which is easily explained by the riskier driving behavior of younger drivers as compared to experienced drivers. Young drivers with no claim history seem to be the most discriminated against age group in what concerns the price of a MTPL insurance policy. Currently, there are debates about this aspect, namely the justification for bigger premiums for young drivers (under 25) as compared to those established for other age categories. FSA recently imposed regulations (from February 2015), that altered the 23/2014 Norm / Standard, seeking to rebalance premiums on the MTPL insurance market. One of the insurers' justifications for the rise in the price of a MTPL policy was “insurers' obligation to establish MTPL premiums so that these should cover all commitments deriving from insurance contracts signed with this market segment”, [14]. Due to the abrogation of this requirement and due to regulations referring to the limitation of administration and brokerage costs of insurance companies in favor of compensation costs, insurers were forced to find alternative solutions, and one such solution would be to increase the premiums of the other age categories.

In the long run, after a period in which an insured's claim history will be established, young women drivers, currently the category most affected by the elimination of the above-mentioned gender criterion, will be entitled to discounts corresponding to the Bonus category in which they will qualify. These discounts can range from 5% in the case of Bonus class B1, up to 50% for Bonus class B14.

In time, not taking into account the gender variable is likely to result in differences in the amount of premiums paid by different

insured categories, although these will be influenced mostly by everyone's damage history, namely by the driving behavior observed over a longer period of time.

#### 4. Conclusions

Gender equality is an unquestioned gain of the present age, with an undeniably major social impact, and which, in time, will trigger equal opportunities in the insurance sector, given that individual responsibility and individual driving history will be evaluated. By penalizing riskier behavior, by establishing bigger premiums based on drivers' behavior as resulting from their claim history, insurance companies can contribute to encouraging a more responsible, less risky driving and life style.

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## Trends Specific to the Members States of the European Union on Individual Income Taxation

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### Abstract

*An effective state is able to raise revenue and to manage them thus stimulating community welfare and investments, and job creation respectively. Tax issues govern the state's role in the development process, and fiscal policy failure may rapidly undermine economic growth.*

*Considering that, this paper proposes an empirical analysis of the ways for individual income taxation in the European Union, briefly evoking several recent fiscal measures taken by the Member States. The performed analysis attempts to stress the steps undertaken by the New Member States concerning taxation, both in the integration process and concerning the macroeconomic impact. Methodologically considering the assessments of the theories, studies and interpretations mentioned in the literature and the analyses of the practical activity pertaining to fiscal issues at European level, the results achieved highlight fluctuating efforts in terms of intensity undertaken by the Member States to consolidate public finances and to harmonize economic systems.*

**Key words:** income tax, individuals, European Union

**J.E.L. classification:** E02, H11, H21

### 1. Introduction

The impact of the fiscal policy on the real economy is multiple and complex, its transmission channels (to boost economic growth) being numerous:

- accumulation of productive factors;
- proper incentivisation through the tax system and benefits;
- ensuring a stable macroeconomic environment.

Consequently, tax matters represent the base of the state's role in the development process, and the failure of this policy - be it fiscal, budgetary expenditure or the management of budget deficit or public debt - may rapidly undermine economic growth and tackling poverty.

Moldovan et al (2014) demonstrated that the Romanian fiscal policy is more effective than monetary policy in influencing growth, in the electoral context, because during election periods, politicians are tempted to manipulate macroeconomic policy instruments.[1]

Analyzing the political system, Lobonț (2012) reveals the need for its multiple perception, that involves both formulating various requirements, converting this requirements through legislation, decision-making, implementation through administrative means, and support elements and means to support recovery, causing permanent *changes of the status*, characteristics and features, emphasizing its dynamic character.[2]

### 2. Literature

In the specific literature the *efforts to define taxes* are multiple, reflecting the views of the authors on the tax burden dimensioning criteria. Thus, according to Talpoș (1995, p. 137), tax is “a form of forced levy available to the state, without direct consideration and designated non-refundable, of a portion of the income or wealth of an individual and/or legal person, to cover some public needs”[3]. Liliana Donath (2007, p. 200) defines tax as the “mandatory contribution, designated non-refundable, payable by individuals or legal persons to the state for the income they derive or assets they possess”[4].

According to Mutaşcu (2005, p. 70), tax may be defined as a “compulsory transfer of value at state’s disposal, with no equivalent, definitive and with no strictly stated destination, payable under the law by individuals and legal persons based on the earned income, assets owned or expenditure incurred”[5]. Finally, in the view of Tulai and Şerbu (2005, p. 19), tax is “a pecuniary levy, imposed under the law by the public authority, i. e. the state, from the taxpayers, individuals and legal persons, being used to cover state’s public spending and as intervention tool in the economic life”[6].

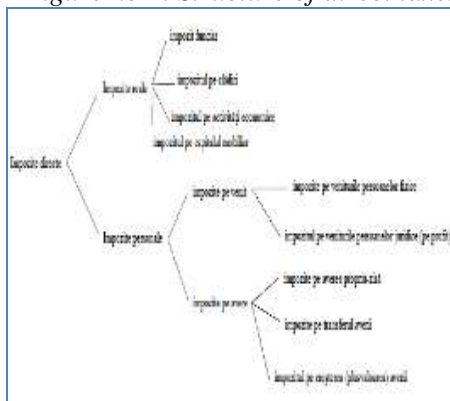
Taxes used in practice are diverse, both in terms of form which they embody and in terms of content.

Taking into account the form and the substance, there are two types of taxes:

- direct taxes, charged nominally on individuals and/or legal persons, depending on their level of income or wealth;
- indirect taxes levied at the sale of goods or provision of services.

Direct taxes have the following structure (Cătinianu, 2002, p. 228)[7]:

Figure no 1. Structure of direct taxes



This paper aims to analyze personal income taxes, which have become an important financial category when incomes of specific social classes have reached a sufficient degree of differentiation.

A number of authors have tried to identify the scope of fiscal policy on account of direct taxes on economic growth. Of them Lobonţ (2013) drew our attention, who, in the attempt to identify the incidence of fiscal revenues, in their structure, as Indirect Taxes, Direct Taxes and Social Contributions, on the dynamics of real output, used a method based on the Kalman filter with time-dependent

parameters and provided some empirical evidence regarding this incidence[8].

### 3. Method and data

Once the economic crisis hit, the arguments in favour of reducing the tax burden on the income from employment have gained ground. However, achieving this goal remains difficult, as may be seen from the upward evolution in 2012 of the implicit tax rates (ITRS) on labour income. Following the steep fall in 2009 and stabilization in 2010, both the EU-28 average value, and the EA-18 average value (Euro Area) reached pre-crisis levels (see Figure 2).

Of the 28 Member States, 20 showed an increase of the ITRS on labour income in 2012, the sharpest being in Greece (from 30.9% in 2011 to 38% in 2012), followed by Cyprus and Poland, each with an increase of 2 percentage points. In Romania, Estonia and the United Kingdom, the ITRs on labour income fell by more than half a percentage point in 2012. Labour related fiscal pressures vary substantially across the Members States: the highest ITRs on labour income are held by Belgium (42.8% in 2012), Italy (42%) and Austria (41.5%), and the lowest values are found in Malta (23.3%), Bulgaria (24.5%) and the United Kingdom (25.2%).

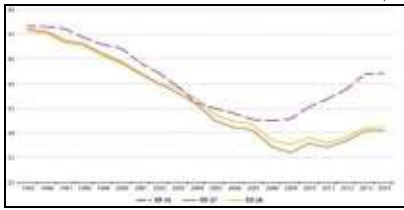
Figure 2. Implicit taxation rates on labour income, 1995-2012 (% , weighted by GDP, adjusted for missing data)



Source: Taxation trends in EU (2014), p. 28.[17]

In 2014, the top tax rate on the personal income amounted to 39.4% in the European Union (simple average), 1.4 percentage points higher than in 2009. From 2010 until 2013, seven Member States have increased successively the top tax rates. However, in 2014 the change rate decreased, only two states increasing the rates (Finland and Sweden), in the other 26 Member States the situation remaining unchanged.

Figure 3. Evolution of higher rates of the personal income tax, 1995-2014 (%)

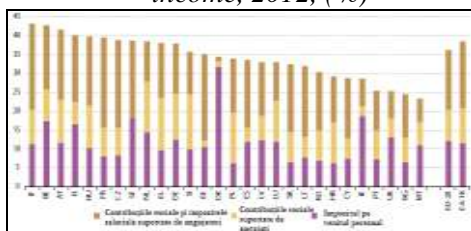


Source: Taxation trends in EU (2014), p. 29.[17]

The top income tax rate for individuals varies significantly between Member States, from a minimum of 10% in Bulgaria to more than 55% in Sweden, Portugal and Denmark. The lowest tax rates are recorded in Bulgaria, Lithuania, Hungary and Romania. Despite the above, it has to be mentioned that not only the level and changes in tax rates are important, but also the level of income on which they are applied. Moreover, rate progressivity, structure of deductions and breaks, as well as the tax base plays a decisive role regarding the effective tax burden.

Regarding the structure of taxes on labour income, in most Member States social contributions hold a higher share from the labour income taxation than the income tax itself. On average, more than two thirds of the ITRs on labour income represent non-wage costs borne by employees and employers (see Figure 4). In Denmark, where social contributions are very low, personal income tax account for more than 92% of the ITRs on labour income. In Ireland and the United Kingdom, the income tax represents, also, a significant share of the ITRs on labour income (65%, and 52% respectively). In Poland, on the other hand, income tax represents less than 20% of the ITRs on labour income.

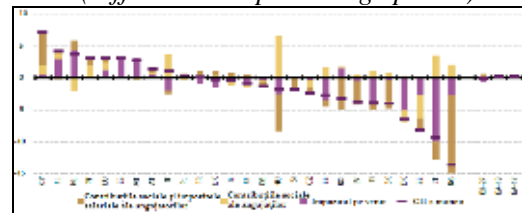
Figure 4. Structure of the ITRs on labour income, 2012, (%)



Source: Taxation trends in EU (2014), p. 29.[17]

From 2000 to 2012, the components of the ITRs on labour income experienced extensive changes in several Member States (see Figure 5). As to the EU-27 average value, incomes taxes declined, while social contributions and wage taxes paid by employers, along with employees' social contributions increased slightly (as a percentage of the total labour cost). Regarding the Euro Area, the only change relates to a minor increase compared to year 2000. As to the individual changes, it may be noticed that most Member States have reduced the ITRS on labour income due to the reductions applied on income tax or employers' social contributions.

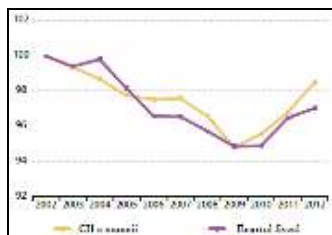
Figure 5. Evolution of the structure of the ITRs on labour income, 2000-2012, (differences in percentage points)



Source: Taxation trends in EU (2014), p. 30.[17]

In the last decade, political factors often resorted to lowering taxes on labour income, those affected being the workers with low earnings, the aim being to encourage employment of low skilled persons. To assess progress in this direction, we shall take into account the tax wedge, which is the difference between labour costs to the employer, and the net income of the employee. Figure 6 shows the tax wedge for low-wage workers, specifically in case of an unmarried couple, without children, who earns two-thirds of the average wage. In 2002, the tax wedge at European level was 37.9%; it fell to 35.9% in 2009, being followed by an increase until 2013, reaching 36.8%.

Figure 6. Evolution of the micro- and macroeconomic indicators of tax burden on labour income, EU-27, 2002-2012 (year 2002 = 100)



Source: Taxation trends in EU (2014), p. 30.[17]

In 16 Member States, tax wedge was smaller in 2013 than in 2002, the sharpest reductions being recorded in the Netherlands, Sweden, Cyprus and Slovakia. The highest increases in the same period belong to the following countries: Ireland, Luxembourg, Portugal, Italy and France.

According to researches in the economic field, tax types may be ranked according to their potential impact on the Gross Domestic Product and economic growth. Based on empirical results, Arnold et al. (2011) and Acosta-Ormaechea and Jia (2012) demonstrate that the increase of tax revenue collection using indirect taxes (such as VAT and excise duties) and property taxes, at the expense of direct taxes (including here personal income taxes, corporate income tax and social contributions) contributes to economic growth [9], [10].

Currently, the share of taxes in the European Union less “harmful” on economic growth amounts to about 36%, with significant differences between Member States (Garnier et al., 2013) [11]. Consequently, a change in tax structure (in order to strengthen the role of taxes less distortionary) could improve the prospect for growth in the European Union. This represents a priority in the Annual Growth Surveys.

Country specific recommendations on tax issues take two forms, which are complementary: 1) a shift from taxation of labour income and capital to other taxes, such as indirect, property or environmental taxes; and 2) reducing the tax burden on the income from employment for workers with low earnings and those immediately above.

In 2012, 11 countries have received recommendations from the European Commission in order to shift the focus from labour income taxation or to reduce the tax burden on employment, in case of targeted groups. These countries were: Austria, Belgium, Czech Republic, Germany, Estonia,

Spain, France, Hungary, Italy, Latvia and Slovakia. In 2013, the Commission concluded that most of the recommendations have not been implemented properly (European Commission, 2013b) [12]. Member States have increased indirect taxes, but this trend has not been accompanied by corresponding reductions in labour taxation, to reduce the relatively high cost of labour. Consequently, for all the above mentioned countries (except Estonia and Spain) the recommendations were resumed in 2013. From 2012 to 2013, Austria, Czech Republic and Slovakia have adopted measures contrary to the recommendations, which have increased the tax burden on employment in 2013, especially in the case of Slovakia. Measures adopted in Germany, Belgium, Hungary, Italy, Latvia and France have decreased the tax burden on labour income. However, the Commission considered that the measures taken in Germany, Belgium, France and Italy were limited in terms of extent. In Latvia and Hungary the tax burden on low income was still considered high. Moreover, tax falls on labour income in Hungary were accompanied by increases in corporate income taxes in certain sectors, the latter not being considered favourable to economic growth.

In the context of the crisis, equity issues have gained importance, being reflected in how some tax reforms have been implemented. The purpose of creating a fairer tax system and increasing employment levels among people sensitive to tax changes influenced tax reforms undertaken in several Member States.

Thus, although the overall fiscal pressure has not dropped, measures were taken to reduce tax burden on labour income for some target groups. Since tax burden on labour income has a significant impact on employment for some social segments easily identifiable, the Tax Annex to the Annual Growth Survey from 2012 particularly recommended steps addressing these groups (European Commission, 2011) [13]. The economic literature (OECD, 2011) has identified the group of persons with above low-income (“second earners”) as a group with a high labour supply elasticity, which means that these workers easily react to tax changes on labour income [14]. Other targeted groups include those with generally

low income, single mothers, low-skilled and older workers, who are close to retirement (Mirrlees et al., 2011) [15].

As the crisis deepened and lengthened, it was increasingly evident that tax reforms should be designed in a manner favourable to growth, taking account of the poor. While the overall fiscal pressure increased, tax reforms of 17 Member States have taken the path of a higher redistribution on the revenue side. Eleven states increased personal income taxes for those with higher earnings. Three of them simultaneously lowered the tax burden on lower income tranches or in case of some target groups: Portugal - for hiring unemployed older than 45 years, the Netherlands - for older employees and France - for small and medium income tranches.

Other six Member States (Belgium, Denmark, Finland, Hungary, Italy and Sweden) implemented measures to reduce tax burden on labour income for some categories of workers. These measures aimed at people with low earnings, and older employees (Belgium, Hungary, Sweden), low skilled people (Belgium, Hungary), youth (Belgium, Hungary, Italy), women (Hungary, Italy), and employees in certain geographical areas (Hungary, Italy).

The issue of fiscal burden sharing between people with high earnings and those with low earnings (known as vertical equity) seems to attract more attention in the context of increasing taxes because of budgetary consolidation. Following the analysis by Atkinson and Stiglitz (1976), there is a general consensus in the economic literature that the use of progressive income taxation for redistributive purposes is more appropriate than different tax rates on goods (for example, reduced VAT rates) [16].

In the nine Member States concerned, measures taken to lower labour costs focused mostly on the tax burden on employers, and not directly on taxation of employees/households. Another common feature of these changes is that they do not take the form of rate cuts, but taxable bases are restricted due to deductions and tax breaks (Denmark, France, Finland, Italy, Netherlands, Sweden). Belgium and Hungary have reduced employers' social contributions (Romania recently adopted this measure), while France and Italy have introduced or expanded a tax break on profit taxation and

related to the labour employed. It is possible that these measures aimed at employers be more suitable in the short term, reducing the tax cost of labour and having a potential impact on reducing unemployment.

With regard to incentives granted to vulnerable groups, we recall that in Belgium the measures taken were to reduce social contributions for small and medium businesses and some employees. Furthermore, employees with low incomes will receive bonuses, reinforced by a reduction in employers' social contributions and tax relief. In Hungary, the reduction or elimination of social contributions targeted young people, older people, the low skilled, workers who were previously unemployed and mothers with small children. Portugal has focused on incentives for workers over the age of 45, by reimbursing employer's social contributions. In Sweden, workers aged over 65 benefit from an increase in the basic deduction for income tax.

#### 4. Conclusions

When carefully designed, tax systems may help redefine the triangle of sustainability, growth and equity, objectives that have become even more important following the most severe economic crisis after the 1930s. The three objectives are sometimes regarded as contradictory, focus being placed on one element involving negative consequences for others. Although there are some compromises, Member States may, at the same time, help to ensure stable public finances, boost economic growth, employment and competitiveness, as well as a fair distribution of income by changing the tax structure in a balanced way, and by improving the effectiveness and efficiency of the tax system.

Some Member States still face a major challenge related to budgetary consolidation, in which case increasing the tax burden could be helpful in some cases. Any increase in tax revenues has to be carefully designed. Regarding the tax structure, there is room for manoeuvre to remove barriers to economic growth and employment by shifting the tax burden on labour towards revenue sources that are less harmful to economic growth.

With regard to the main challenges on fiscal policy, there are ways to lessen the tax

burden on labour, tax reduction being a way to improve public finances. The tax burden on labour is relatively high in the EU. The reduction of this burden, especially for specific groups, such as those with lower incomes, would have positive consequences for many Member States. As evidence of understanding these issues, many Member States have reduced the tax burden on labour, reductions being aimed at target groups such as low-wage workers. The increase in labour income taxation meant in most cases the elimination of tax exemptions and deductions. Some Member States have increased taxes on personal income, but have targeted the category of “passive” income.

But the critical question is how to fund such measures, as reducing taxes on labour, without offsetting the loss of income is not a feasible option, given the risk to which public finances will be exposed to. Therefore, lower taxes on labour have to be offset by increases in other sources of income or by a reduction in public spending. Several Member States where there is now a high tax burden on labour (in general or for specific groups) should increase taxes that are least harmful to growth, such as consumption taxes, recurrent taxes on real property, and environmental taxes. These Member States could consider a transfer of the tax burden from labour to other tax bases.

Despite that there were introduced such measures, the group of countries in this situation remains largely the same, suggesting a need for further reforms. There are a number of Member States that have not yet fully ensured sustainability of public finances and, therefore, must find the right balance between reducing costs and increasing revenue. A small number of these Member States appears to have further possibilities for increasing taxes - either their overall tax levels are low, or taxes have not increased significantly in recent years, or less harmful taxes for growth are relatively low. The group of countries in this category has changed over time, reflecting the efforts of Member States to consolidate public finances.

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# Corporate Governance - Leading Factor of Firm Financial Performance?

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## Abstract

*Corporate governance aims at increasing company's performance and harmonization of various interest groups. Within companies, shareholders attach great importance to corporate governance and implementation of such governance systems, and are willing to pay extra for excellent results in this field. This often happens because implementation of such governance systems is the only guarantee of fair treatment and equal rights that all shareholders have.*

*Present paper aims to analyze the impact of corporate governance within Romanian firms on financial results. Conducted research consists, on one hand, of a survey, and on the other hand on a financial analysis of firm financial statements.*

**Key words:** agents, principals, survey, return on equity, correlation.  
**J.E.L. Classification:** G30

## 1. Introduction

Within the current economic environment, marked by rapid and continuous changes, highly influenced by economic and political circumstances, firms play a central role. On firm's ability to permanently adapt to economic conditions and, moreover, become competitive and generate progress depends the entire evolution of economies. Still, such abilities are based on existence of efficient managers, best able to direct and positively influence firm activity.

Agency theory, as first developed by M.Jensen and W.Meckling [1], brought into attention the conflict between shareholders, as owners of firms, and managers, as their agents. Managers are mandated by shareholders to manage their interests, and they make choices given information they hold about firm they are in charge of.

Hence, managers guide their actions by use of proper information about firm activity (often not known to shareholders), so they can act in their self-interest.

## 2. Literature review

The basic assumption of agency theory is that there is some asymmetry of information between the two parties involved, namely between agents and principals, so that principals cannot directly observe and control activities of their agents or agents have access to information that is unknown to principals.

As managers are involved in firm daily operations, it is considered that they have more information regarding company's activity and financial situation, information that owners are not always aware of. Conflict of interest occurs when managers pursue personal objectives, beyond owners welfare (as deemed by neoclassical theory), such as financial benefits, access to restricted information, etc. Accordingly, agency theory claims it will be impossible for owners to implement their own plans directly profit maximization, through a contract with the manager. In reality, the owners will not even be able to assess ex-factum if the administrator has chosen the correct plan. Instead, the owners will try to align their own objectives manager objectives by offering an incentive system. However, even under optimal incentive system, the manager will pursue their own goals at the expense of the owners, and consequently, conflicts of interest will persist. Based on this, corporate governance addresses the mandatory relationships between shareholders and agents (managers).

Given European Central Bank perspective [2], corporate governance refers to a set of "procedures and processes according to which an organization is directed and controlled."



Corporate governance is a form of organization and management of a company where decision is taken in consultation with shareholders, taking into account their desires and interests. Supreme power belongs to shareholders and, is directly exerted by them within General Shareholders Assembly, or, indirectly, throughout elected representatives, respectively Board of Directors or Board of Supervisors.

Studies referring to relationship between corporate governance and firm performance revealed the importance of corporate governance, showing that "better-governed firms have better operating performance" [3], [4], whereas firms with poor corporate governance are more riskier, register lower profit margins and pay lower dividends [4].

Other empirical studies refer to CEO compensation, board characteristics, anti-takeover provisions, ownership and capital structure characteristics as corporate governance variable [5], [6].

Main instruments for solving agency problem and corporate governance issue are monitoring and measuring performance. In terms of monitoring, basic problems that arise are related to internal and external factors involved in this process, as well as their independence (especially of financial auditors). As for performance measurement, it is highly dependent on information included within measurement system and on tools used.

### 3. Methodology

To achieve proposed objective of present research, a survey was conducted among shareholders of Romanian firms, in order to analyze their perceptions on how managers represent and respect their interests.

Within questionnaire, corporate governance was analyzed throughout 15 questions aiming to assess:

- ✓ dividend policy - the extent to which Romanian firms register annual dividend allowances, with acceptable dividend yields;
- ✓ transparency of information - the extent to which all stakeholders, but also the public have permanent access to information related to firm activities, financial results

and other useful information;

- ✓ stakeholders' rights - the extent to which managers act as stakeholders' agents and are aware of their rights, given their position within firm;
- ✓ managers reporting activity - the extent to which managers periodically and correctly inform stakeholders about firm activity and its financial results, but also about other important issues that need their advice;
- ✓ managers decisions - the extent to which managers rapidly and correctly solve problems within departments and find best solutions;
- ✓ meeting stakeholders expectation - the extent to which management acts in best interest of shareholders, takes into account their decisions and successfully achieves its objectives.

Within questionnaire only positive questions were included, in order to facilitate interpretation. Questionnaire was designed by using a differential scale, five-scored, where 1 represented minimum score and 5 represented maximum score.

$$AS_i = \sum S_{i;n} / n,$$

where:

$AS_i$  = average score of question "i";

$S_{i;n}$  = respondent's "n" score for question "i";

n = number of respondents.

In parallel, financial performance of Romanian firms within same sector was determined throughout a quantitative study of financial statements. Financial indicator to evaluate firm performance was ROE (return on equity). Thus, based on a sample of 365 Romanian firms, ROE financial indicator has been observed for a period of 4 consecutive years and multiannual average was extracted.

Hence, main objective of present research consisted of testing the following hypothesis:

*H1: There is a positive and significant correlation between corporate governance and firm financial performance.*

Method used for testing hypothesis refers to Pearson correlation coefficient and its statistical interpretation.

#### 4. Results

As mentioned in previous section of the paper, corporate governance variable was measured throughout 15 questions. Consequently, average score of corporate governance within Romanian firms was that of 2.893 points. Average scores obtained for each analyzed aspect are shown in Table no.1.

Firstly, one weakness identified by present reasearch refers to transparency of information, given registered score is the lowest one. This shows that, in many cases, management often hides important information from shareholders, so decisions taken within General Shareholders Assembly or Board of Directors are not properly substantiated.

*Table no.1 - Average scores of corporate governance components.*

<b>Investigated aspects</b>	<b>Average score</b>
Dividend policy	3.458
Transparency of information	3.106
Rights of all stakeholders	3.010
Management reporting activity	3.263
Management decisions	2.992
Meeting shareholders expectations	3.008
<b>Corporate governance - Total</b>	<b>3.139</b>

*Source: Authors processing.*

Secondly, given obtained average score for managers decisions, it is highlighted that management activity is not an effective one, as it does not lead to taking best decisions. One possible explanation of this finding lies in the fact that in many Romanian firms there is no compensation scheme for management. Other explanations could be related to bureaucracy, formalism or lack of experience.

Given scores of each of the above corporate governance components, Pearson correlation coefficient was extracted, in order to identify significant correlations.

As Table no.2 shows, values of Pearson r correlation coefficient are all significant, above .500 threshold. Highest correlation coefficient is that related to the process of

decision making. Obviously, this reaffirms the fact that management has a crucial role within firms and is mainly responsible for firm success or failure. Consequently, management should be able understand and apply decisions of General Shareholders Assembly or those of Board of Directors, but also act in interest of all stakeholders. Moreover, they should be able to take decisions quickly, assume consequences of such decisions and achieve established objectives. By doing so, firm financial results will improve, which will lead to a higher ROE. Hence, findings show that when management decisions are in accordance with shareholders vision, ROE financial indicator registers increasing values, meaning that firm financial performance improves.

Secondly, findings show that dividend policy can be used in order to increase firm financial performance, as it is signigicantly, but negatively correlated to ROE. Negative value of Pearson r correlation coefficient refers to the fact that the lower dividend allowances are, the better values of ROE are registered. This is explained as follows: decisions taken by Board of Directors to pay higher dividends to shareholders lead to lowering net profits reinvested in firm, so this affects medium term financial results. Consequently, Romanian shareholders should be aware that only by promoting a balanced dividend policy firm will be able to develop, to improve its activity and to generate higher profits.

Preserving rights of all stakeholders is another aspect that positively influences financial results on the medium-term, as present research revealed. Romanian managers often make mistakes in this latter sense, as they consider that shareholders rights are the only rights they have to defend. Still, human capital (employees) is highly important for firms, as it is a strategic factor of firm growth since it creates value and generates progress. Moreover, creditors and contractors also contribute to firm growth, as they provide necessary resources (financial, material, etc.). Therefore, it may be summarized that firms that preseve rights of all stakeholders are firms with high financial performance.

Managers reporting activity is also responsible for firm financial results, as Pearson correlation coefficient shows.

Shareholders need to be informed about activity of firms they own, in order to make decisions. In this latter sense, they are provided with monthly, quarterly or annually reports that contain private information, not known to other types of users. Therefore, permanent communication and exchange of information with superior forms of management, periodicity of reporting and reality of information transmitted positively impacts firm financial results, so firms where managers reporting activity is weak have weak financial performance.

Transparency of information is highly important for firm financial performance. Findings show that providing free and unrestricted access to information for all stakeholders generates a sentiment of trust in firm management. Transparency of information is one of the key aspects of corporate governance, as it stimulates participation of stakeholders in firm value creation. Publicity of information related to firm's financial situation allows stakeholders to understand and improve their ability to predict future firm evolutions, thus reducing uncertainty. Consequently, firms with strong transparency of information have higher financial performance.

*Table no.2 - Pearson r correlation coefficient between corporate governance components and ROE.*

<b>Investigated aspects</b>	<b>ROE</b>
Dividend policy	-.504
Transparency of information	.545
Rights of all stakeholders	.623
Management reporting activity	.534
Management decisions	.710
Meeting shareholders expectations	.501
<b>Corporate governance</b>	<b>.525</b>

*Source: Authors processing.*

Lastly, shareholders, as legit owners of firms, must be rewarded for investing in firm. Hence, given provided information and decisions taken, shareholders expect management to put their decisions into practice, to solve problems efficiently and ensure certain dividend yields and allowances. By doing so, their expectations will be met and firm profitability will improve.

Summarizing, within Romanian firms, corporate governance significantly and

positively impacts firm financial performance, as Pearson correlation coefficient shows (.525). As a consequence, central hypothesis of present research is confirmed.

## 5. Conclusions

Corporate governance, as a set of systems, mechanisms and processes of management and control, represents a form of participatory organization and management of firms, where decisions are taken in consultation with shareholders. In the sense of present research, strong corporate governance consists of:

- adequate and balanced dividend policy;
- high transparency of information;
- preservation of rights of all stakeholders;
- periodical reporting to shareholders;
- efficiency of management decisions;
- meeting shareholders expectations.

Given main objective of present study, findings lead to confirmation of central hypothesis. Hence, within Romanian firms, there is a positive and significant correlation between corporate governance and firm financial performance.

In conclusion, the more stronger corporate governance in Romanian firms is, the more profitable they are, so the higher their financial performance is.

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## Provisions and Contingencies: Considerations regarding recognition and measurement

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### Abstract

*Obligations are an important part of an entity's life, because, basically, they are the 'source' for both assets and financing. Their existence imposes a settlement in the future, because there are no realistic alternatives. Sometimes, the obligating events cannot be evaluated fairly, so the entity must estimate the effort to settle.*

*Recording provisions, contingent assets and liabilities in accounting is a part of the prudent attitude of an entity. Thus, when given a choice between several outcomes where the probabilities of occurrence are equally likely, an entity should recognize those obligations, evaluated or estimated, resulting in the lower amount of profit.*

*Recognizing a provision reflects a sign of a possible outcome of economic resources in the future, without knowing the value, but being able to estimate it reliably. This paper brings into attention some aspects which impose the recognition and measurement of estimated obligating events.*

**Key words:** provision, contingent assets and liabilities, performance, prudence

**J.E.L. classification:** H30; M40, M48.

### 1. Introduction

The development of accounting concepts and principles is closely related to the economic growth, as businesses grew in size, and outsiders increased their demand for financial information. The 21<sup>st</sup> century has been characterized, so far, by a development without precedent of multinational companies, which created a new image on the accounting information market:

companies which are interested in presenting not only financial information, but also information related to their social attitude, meet users who tend to be more realistic about their expectations. In this context, when the offer for investment is so large, the quality of the information presented by the companies gets crucial.

To ensure the disclosure of comparable and equivalent information, recognition and measurement principles should include the going concern, the prudence, and the accrual bases.[1] The focus on prudence brings into attention the importance of provisions and of the disclosure of some assets and liabilities, which carry an amount of uncertainty regarding their value and occurrence.

### 2. The prudence concept – the premise for recognizing provisions and contingencies

Prudence, as a principle, proposes that the information in financial statements should not foster undue optimistic expectations and bends toward being prepared for the worst situation. When a policy of conservatism is followed, assets and income tend to be understated.[2]

Under the conservatism principle, if there is uncertainty about incurring a loss, one should tend toward recording the loss. Conversely, if there is uncertainty about recording a gain, a company should not record the gain. Also, an entity should present all its obligations, present or contingent, in the financial statements or the notes to the financial statements, this being an important aspect of a prudent attitude.

In this context, the first question that appears is: when a company has a liability? According to the Conceptual Framework for

Financial Statements, a liability is recognized in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.[3] Now, the second question appears: when the liability is a provision and when it is a contingency?

The answer can be summarized as follows: [4]

- If the event is provable and the measurement is reliable, the amount is recognized as a payable item by the general accounts;
- If the event is probable but the measurement remains uncertain, the estimated amount is recognized as a provision;
- If the event is uncertain, but the related outflow is probable in the near future, the estimated amount is disclosed as a contingent liability in the notes;
- If the event is uncertain and the outflow remains remote, no report or disclosure is made.

Both provisions and contingencies appear from *past events*, which exist on the date of the balance sheet. In both cases, *the estimation is the method to establish a value in accounting*. The difference between them is if they are *present* or *probable* at the date of the balance sheet. If a future liability is more probable to occur than not to occur, it is a provision. If the situation is the other way around, it is a contingency. These aspects will be detailed in the next section.

### 3. The recognition and measurement of a provision

We established that a liability necessitates *an outflow of economic benefits* in order to be settled and, in the case of the provision, the value to be settled must be estimated. If a company reports provisions, the IAS request is that the company should present both the estimation, and the details of the uncertainty which led to it, in order to respond to users' information necessities.

Thus, *to recognize a provision*, the following criteria must be accomplished at the date of the balance sheet:

- An entity has a current obligation, as a result of a previous event;

- There is a probability of an outcome of economic resources, in order to settle the obligation. This probability is exactly the difference between liabilities and provisions;
- A reliable estimation of the value of the obligation can be made.

The value recognized as a provision must be the best estimation of all the necessary expenses in order to settle the obligation (taxes, fees) or to transfer it to a third party. In this case, an entity must also consider all the information which can appear between the date of the balance sheet and the date of the approval of the financial statements (in Romania's case, the 150 days after December 31<sup>st</sup> in which companies must submit their financial statements).[5]

Regarding the effects of a provision in the Income statement, we can discuss here their influence on both expenses and revenues.

When a provision is recognized or supplemented, usually an expense occurs. In Romania, most of these expenses are not deductible from the taxable result, according to the article no. 22 from the Fiscal Code (for an economic entity, exceptions are the provisions for warranties to customers, and the provisions for accounts receivable, in a percentage of 30% or 100%, depending on the number of days that have passed from the due date or the existence of a Court order that declares the bankruptcy of a customer).[6]

An exception is represented by the provisions for decommissioning a long term asset, which are included in the value of the long term asset, using the present value of the future expenses. Concerning its estimation, time value of money applies: values are then discounted. This method significantly reduces the amount that is accounted for during the current financial year. It results in postponing a large part of the recovery to future periods. Later, the effect of time on the value of the provision is recognized as a financial expense.

If there is a possibility that a third party will settle for a part of the obligation, this value will be recognized as a receivable, decreasing the value of the expense, without affecting the value of the provision itself.

Revenues are recognized when a provision is consumed, annulled or diminished. These revenues are not taxable, when calculating the income tax, if the

expense that occurred when the provisions were recognized was a not deductible one. Again, in the case of the provisions for decommissioning a long term asset, the amount deducted from the provision will decrease the value of the asset, according to the article 226.(6) from OPFM no. 1802/2014.

*Measurement of a provision* depends on its nature. Thus:

- Provisions for one-off events (restructuring, settlement of a lawsuit) are measured at the most likely amount;
- Provisions for large populations of events (warranties, customers’ refunds) are measured at a probability weighted expected value.

There is a possibility that an entity settles litigation after the reporting period. This situation does not lead to a contingent liability, but it will have to adjust the value of the provision which was recognized in the balance sheet. [7]

#### **4. The disclosure of contingent liabilities**

A contingent liability can be defined from two perspectives:

1. It is a possible obligation which appears as a result of past events, but its existence can be confirmed only by the appearance of one or more uncertain future events which are not controlled by the entity;
2. It is a present obligation arising from past events, which cannot be recognized because:
  - An outflow of resources embodying economic benefits is not necessary to honor the obligation; and
  - The value of obligation cannot be reliably estimated.

For an example, an entity Alfa guarantees for a loan of another entity, Gamma. During 2014, the financial situation of Gamma is good, and it is likely that the entity pays its liabilities. During 2015, the situation of Gamma deteriorates and, by the end of the year, the entity doesn’t pay its rates.

So, in terms of recognizing criteria for provisions/contingent liabilities, at December 31<sup>st</sup>, 2014 we have the following information in the accounting of Alfa entity:

- There is a present obligation arising from past events: the guarantee which

generates a legal obligation;

- An outflow of resources embodying economic benefits is not probable: the financial situation of Gamma is good;
- A provision is not recognized, the guarantee being presented as a *contingent liability*.

At December 31<sup>st</sup>, 2015, we have the following situation:

- There is a present obligation arising from past events: the guarantee which generates a legal obligation;
- An outflow of resources embodying economic benefits is probable: the financial situation of Gamma is not good, the entity not paying its liability;
- A *provision* will be recognized for the most likely amount.

To recognize a contingency, a certain degree of uncertainty must exist. If the entity must estimate a value, it doesn’t imply a contingency. Thus, although the depreciation implies an estimation of a useful life, it is not a contingency, because the asset will reach, ultimately, the end of its useful life. Also, for an invoice not received at the end of the year, the only uncertainty is the exact amount, not its existence.

The question which can be asked regarding the contingent liabilities is: whether recognition on the face of the financial statements versus disclosure in the footnotes influences the amount that financial managers report for a contingent liability.

In particular, accounting standards require the disclosure of contingent liabilities by revealing the possible costs to the firm contingent upon the liability being realized. Since the probability that the contingent liability will become an actual liability is less than one (otherwise, it would not be contingent, but simply a liability), the *expected outlays are lower than these contingent liability costs*.

Using an experiment with corporate controllers and chief financial officers, Clor-Proell and Maines find that financial managers in public companies expend more cognitive effort and exhibit less strategic bias under recognition than disclosure. This difference appears to be associated with capital market pressures experienced by public company managers as they find that both the cognitive effort and bias exhibited by private company managers are unaffected

by placement.

As a result, public company managers tend to make higher liability estimates for recognized versus disclosed liabilities. Their liability estimates are similar to those of private company managers for recognition but lower than private company managers' estimates for disclosure.[8]

In this case, the transparency in presenting information regarding contingencies meets manipulation of information at the limit of legality. This approach actually allows changing the image to promote the enterprise on the market, being considered, to one point, as “creative”. But as in any other case, the demarcation between opportunity and opportunism is sensitive, and the creativity can become fraud. The development of *creative side of the information on contingencies* publicly provided by the companies, driven by gaps in laws and regulations, makes it difficult or even impossible to assessing the actual situation of the company and causes serious degradation in the truth, putting into question both the responsibility of information producers and their level of transparency.[9]

## 5. Some aspect regarding contingent assets

A contingent asset is a possible asset, which rises as a result of past events and it will be confirmed by one or more events which can or cannot occur as a result of entity's will. Contingent assets include potential gifts, donations, bonuses, possible government refunds resulting from tax disputes, pending court cases in which a probable outcome is favorable.

A contingent asset must not be included in the financial statements, mainly the balance sheet, because it could determine the recognition of revenues which may never be earned.

In the case of a contingent asset which, with almost certainty, will be realized, it seized to be contingent and it becomes *a receivable*. For example, in the case of a lawsuit when the other party wants to settle in favor of the company, the resulting asset stops being a contingency and it will be reflected in the balance sheet, according to its nature.

Private information about contingent assets is particularly valuable in the legal arena, but mostly in relation to stakeholders. In any case, the producers of accounting information have to consider a degree of pessimism when assessing the value of the contingent assets, by applying a little bit of prudence. However, the transparency related to contingencies is important for both liabilities and assets.

## 6. Conclusions

The use of prudence in the financial reporting of the companies creates a conflict in accounting: on one side, a company cannot register *the value growth of the assets or the decrease of the liabilities*, even if they are clear, but it has to consider *all the negative trends of accounting values*, such as depreciation and impairment of assets or the increase of debts, even if estimated. By ignoring the potential earnings, prudence intends to protect the stakeholders of the company against the risk of being optimistic. Considering these limits, business practice has shown that each company, no matter its size, must be prudent when evaluating the elements that describe the financial position and performance and consider every element of risk that might unfavorably affect its future activity.

Provisions are important instruments of protection against possible expenses and losses of a company. The disclosure of contingent liabilities is a sign of company's good intention and transparency in relation to its stakeholders. But, sometimes, they can be *the image of company's weaknesses*, being capable to influence the perception of the investors. For example, revelation of the firm's private estimates of the probability of loss and possible legal damages can be detrimental to the firm by encouraging litigation and increasing the costs of settlement.

Although many economic entities avoid provisions, *they are a reserve on the hand for future expenses*. The main reason they are not a tool for entities is because they generate not deductible expenses, which create a fiscal burden for the period. An alternative approach could be to bind corporate income tax deductibility of more provisions, so the entities could develop a culture in this



direction.

The drive for comparability of financial information is to enable users to distinguish similarities and differences in economic activities for an entity over time and between entities so that their resource allocation decisions are facilitated. With the increased globalization of economic activities, the enhanced international comparability of financial statements is often used as an argument to advance the use of disclosing some information otherwise ignored.

Accounting and reporting for contingencies, as potential gains and losses, is a topic which is not very popular for finance and accounting professionals. Their reporting is due to the globalization of businesses and to the investors' interest in activities of the companies, the transparency being a very important factor in choosing an investment. *But this transparency can, sometimes, work against the company itself.*

Businesses are subject to many uncertainties regarding the future outcome of their current assets and obligations. As a part of company's obligations, *contingencies may substantially impact firm value*, but accountants must learn how to value these future outcomes so that financial statements reflect a true and fair view of company's financial position and performance.

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# The Implementation and Employment of the Information Technologies in the Romanian Companies

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## Abstract

*In this research we investigated the implementation and employment of the information technologies in the financial-accounting department of the Romanian companies. The study is built on the results obtained at a survey conducted with Romanian accountants in 2014. The results show that there is an increase in the use of the sophisticated information technologies (such as the enterprise resource planning systems). The benefits are higher than the difficulties reported.*

**Key words:** information technologies, Romania, empirical survey, implementation, employment.

**J.E.L. classification:** M15, M41

## 1. Introduction

The effort of implementing information technologies is considerable for a company. This is true in Romania as well, as most of the companies are still recovering after the financial crisis. The first research question of our study is which are the information technologies used by the Romanian companies. Next, we wonder which was the decisive factor which determined the representatives of the company to purchase a certain technology.

We wonder which are the benefits brought by the implementation and employment of the information technologies in the financial accounting department of the Romanian companies. We chose to study the financial accounting department of the companies as we see it acting as a catalyst, the accountants being responsible for the fairness of the entries, preparing the reports for the management and for the state based on the entire activity of the company etc.

Also, many studies report that some companies fail in the implementation and employment of the information technologies, as sometimes they are very complex and difficult to be adopted. This is why we wonder which are the difficulties encountered by our respondents in relation with the implementation and employment of the information technologies in the financial accounting department of the Romanian companies.

We sought to answer these two research questions by using the results of an empirical study based on a questionnaire.

The rest of this paper is organized as it follows: after the literature review we present the research methodology employed. The results of the study and the conclusions follow.

## 2. Literature review

Reference [1] identifies as business factors affecting the information technology adoption the following: business complexity, company size (micro, small, medium, large), market area (local, regional, national, international), membership to a group of companies, the presence of branch offices, the level of diversification (in terms of products, markets, technologies), the degree of functional extension [1].

Previous researchers ([2]; [3]; [4]; [5]; [6]; [7]; [8]) described a number of categories of benefits generated by the investment in information technologies. In this article we will use the classification suggested by [8]. According to study [8], the benefits can be operational, managerial, strategic, IT infrastructure, organizational. Operational benefits are usually determined by the increase in productivity, shorter operating time, cost reduction etc. The managerial benefits refer to the improvement

of the decision-making process. If the information technologies support the strategy of the company, such as growth, products differentiation etc., strategic benefits are obtained. Reduced IT costs, successful implementation of new IT solutions are considered IT infrastructure benefits. The organizational benefits include improvement of “employee morale and satisfaction, greater employee accountability and the transformation of users from doers to planners with broadened skills” ([8]).

The benefits are different on different stages of the implementation process. Reference [9] states that, first, the organizations achieve the automate and inform level benefits, and then the transform level benefits. The benefits should be measured at different points in time [10]. More accurate selling prices, economies of scale and better monitoring of inventory levels (reported in the initial phases), may contribute to profit margin maintenance, reduces headcount costs and selling, general and administrative costs, and higher inventory turnover [11]. Also, the benefits may depend on industry, vendor or firm size [8]. Thus, different organizations may report on different benefits for the same information technology.

Most of the articles published regarding the difficulties generated by the implementation and employment of the information technologies in the accounting department refers to the ERPS ([12]; [13]; [14]; [15]; [16]; [17]; [18]). In this article we use the classification presented by [13]. The difficulties are classified by this study as it follows: economic, technical, organizational and social. The economic difficulties are related with company’s economic condition, for instance high costs. The technical difficulties are related with the particular system solution, the IT infrastructure involved and the information processing. The organizational difficulties refer to “the aligning of corporate organizational structure and its procedures to an enterprise system’s needs” [13]. Finally, the social difficulties involve the persons involved in the project and their attitudes.

### 3. Research methodology

Our research relies on the results obtained

at a questionnaire which pursued to test the opinion of the accountants regarding the impact of the information technologies. The questionnaire was uploaded on Google Drive on September 29, 2014 and it was fulfilled on line by the respondents. Until November 5, 2014 56 answers were collected. The respondents were selected ad hoc.

The questions were not compulsory and this is why in some cases the sum of the percentages is not 100. The difference is represented by the percentage of the persons which did not answer.

### 4. Research results

50% of the respondents work in companies with a number of employees between 10 and 250, 43% in companies with less than 9 employees and 7% in companies with more than 250 employees. More than 54% of the companies registered in 2013 a turnover between 100,001 and 5,000,000 EUR, 25% registered a turnover smaller than 100,000 EUR and 21% had a turnover above 5,000,000 EUR. The total assets of the respondents’ companies was between 100,001 and 5,000,000 EUR for 46% of the respondents’ companies, less than 100,000 EUR in 38% of the cases and bigger than 5,000,000 EUR for 14% of the companies.

34% of the respondents work in companies involved in the distribution domain, 32% of the companies have services activity, 13% are production companies, 7% work in the IT domain and 14% in other domains. According to Eurostat, in 2010 at a national level the percentages were: distribution 23.8%, services 29.8% and production 29.7%. We consider that our sample is representative.

In 63% of the cases all the computers of the company are connected in a network, in 14% of the cases only a part of the computers is connected, while 23% of the companies don’t have a computer network.

The computerization of the activities in the financial-accounting department was made in 70% of the cases by purchasing software from an IT company and in 13% of the cases by developing their own software within the company or by purchasing software from several IT companies.

57% of the respondents use as an IT support for the financial-accounting activities

of the company an ERPS, 27% use independent software on types of activities developed by the same company and 14% use independent software on types of activities developed by different companies.

The decisive criteria in selecting purchased software was its complexity and the fact that it covered the entire activity of the company or the quality/cost report (in 68% of the cases), the reports generated by the software (57%), the availability of the developer to upgrade the software according to the company's requests (41%), the recommendations received regarding the software, especially from the companies in the same activity domain (38%), the friendly interface of the software (38%), the post-sale service opportunities (36%), the time and implementation plan specified in the contract (25%), the professionalism of the team which presented the application (23%), the strategic alignment between the application and the company (23%), the reputation of the developing company (14%).

After studying the reasons which laid at the basis of choosing an ERPS by a sample of companies in the distribution domain it resulted that the most important were: the friendly interface of the software (in 87.5% of the cases), the reputation of the developing company (87.5%), the availability of the developer to change the application according to the requests of the company (50%), the opportunities of post-sale service (25%), the professionalism of the team which presented the software (25%), the time and implementation plan specified in the contract (12.5%), the complexity of the application and the fact that it covers the entire activity of the company or the quality-cost report (12.5%), the reports generated by the application (12.5%). No respondent mentioned the references received regarding the software, especially from companies operating in the same activity domain and the strategic alignment between the software and the company. We notice that the percentages are reversed.

54% of the respondents use Excel for less than 33% of the works performed by the financial-accounting department, 21% use it for 33-66% if the works and 18% for more than 66% of the works. Excel is used for:

- Cash flow (eight respondents);
- Preparing budgets (seven

respondents);

- Various reports (three respondents);
- Apportionment of the prepayments, cost-benefit analysis, expenses analysis, customers and suppliers analysis, cost analysis, sales analysis, income tax computation, other components of the ending balances disclosed in the balance sheet, computation of the exchange rate differences, reports regarding the payments or collections and reports regarding the maturity of the invoices, computation of the deposits interests, the book-keeping of the returns, fiscal reports preparation, checks, provisions, wages, inventories reports, bank account reports, borrowings (one respondent each).

As a consequence of using the IT solutions, the respondents identified benefits in the following percentages:

- Operational benefits: 98%;
- Managerial benefits: 88%;
- IT infrastructure benefits: 79%;
- Organizational benefits: 63%;
- Strategic benefits: 57%.

We notice that most of the respondents mentioned more than one benefit. Also, the percentages are high for all the benefits, which means that the representatives of the financial-accounting department are satisfied with the software that they are using.

The respondents enumerated the following positive effects of using software (one respondent each):

- The permanent upgrade of the software to the requests of the company;
- Touching the pre-established business objectives;
- Elimination of the errors which can appear at the transcription of the economic data, by automating the information;
- A better traceability of the revenues;
- The improvement of the quality of the services offered to the customers;
- Connectivity of the departments;
- A better structure and organization of the data for the preparation of the reports asked by the management in the decision-making process;
- Professional yield;
- Reduction of the working time;

- A better control of the activity.

The difficulties which appear in the implementation of the software within the company were reported by the respondents in the following proportions:

- Economic: 25%;
- Technical: 43%;
- Organizational: 48%;
- Social: 20%.

80% of the respondents state that there will be an improvement in the managerial processes, 75% say that the information system, the internal control and the governance will be articulated, 75% consider that it will have an effect on the computerization of the inter-organizational relationships, 57% consider that the roles in the organizations will be redefined, 45% consider that during the next period the use of the information technologies will lead to the dematerialization of the documents and procedures.

Other effects mentioned by the respondents were:

- The reduction of the decision-making time;
- Resource saving;
- Generation of current, correct, coherent information;
- A better analysis of the costs;
- The possibility of integration with the accounting software.

71% of the respondents consider that the advantages obtained through the implementation of the financial-accounting software corresponded to their expectations to a degree higher than 50%, 25% consider that their expectations were confirmed in a degree of 1-50% and 4% consider that their expectations were not satisfied.

## 5. Conclusions

The biggest part of our respondents uses in their activity complex systems such as the ERPS. The study shows that in general the accountants are satisfied with the software they use. They mention a biggest number of benefits than difficulties generated by the implementation of the information technologies. In the same time, many respondents consider that the information technologies can have effects on their department in the future. The efficiency of the software used results from the fact that

Excel or similar software is used for less of 33% of the activities of the respondents.

In the future the implementation and employment of the software in the financial-accounting department can be further analysed. For instance, the questionnaire can be sent to a bigger number of accountants. A bigger number of answers can allow us to make a more sophisticated interpretation.

## 6. Acknowledgement

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# The Provisions for the Risk of Loss in the Case of the Loans Granted by the European Banks

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## Abstract

*The provisioning of the banking risk associated with the granted loans is an issue of great interest in the present context of financial instability and it has acquired new meanings especially since the bankruptcy of Lehman Brothers. In Europe banks align with both the international standards and requirements imposed by the European Commission in a legislative context.*

*In this paper the authors deal with the main aspects of the phenomenon of risk provisioning for the loans given by the European banks in the light of the international accounting standards and regulations of international financial reporting standards applicable to banking institutions.*

**Keywords:** provision, risk exposure, credit rating.

**J.E.L. classification:** G29, M41

## 1. Introduction

Emission calculation of loan provisions according to IFRS presents the methodology for calculating the loan provisions.

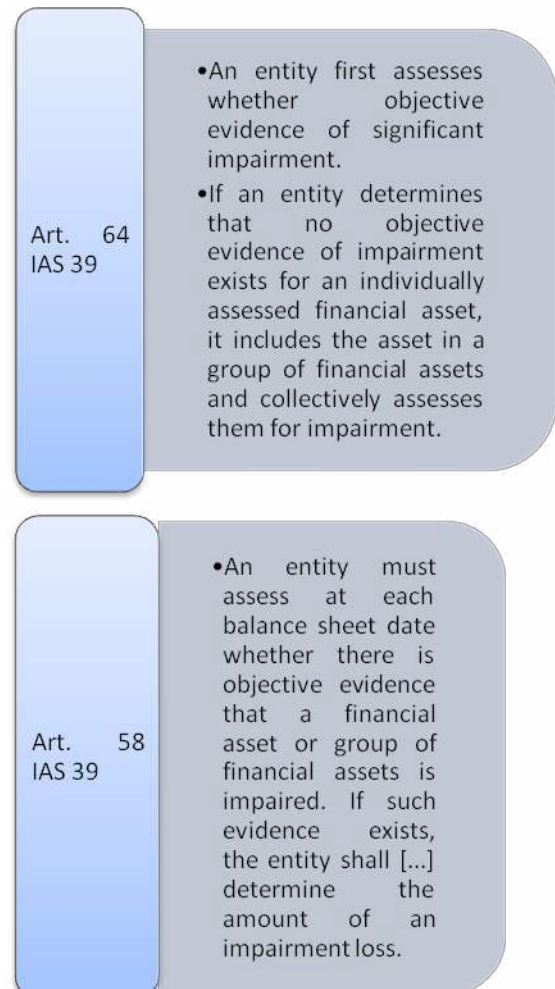
The definition of impairment is given by Article 59 of IAS 39 [1]:

"A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if:

- There is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and
- This loss event (or events) has an impact on the estimated future cash flows of the

financial asset or group of financial assets, the impact can be estimated reliably.

Figure 1. The provisions of IAS 39 on determining the amount of an impairment loss



Source: Processing by IAS 39 [1]

Banks apply IAS 39 and IAS 37 regarding provisions for credit losses by:

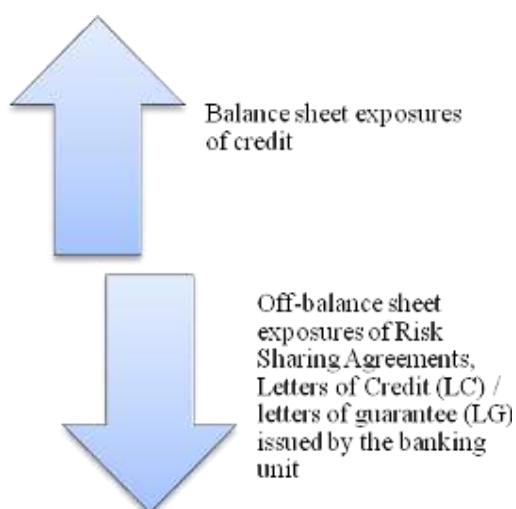
- Establishing specific provisions for individually significant impaired

- exposures; and
- Establishing collective provisions for exposures without specific provisions (whether or not impaired).

At each balance sheet date the banks will determine both provisions based on internal rating system used.

Exposure subject to the calculation of reserves is established and off balance sheet exposures as shown in the figure below:

Figure 2. Types of exposures subject to the calculation of reserves



Source: Processing by IAS 39 [1]

In practice off-balance sheet exposures shall be considered a 100% CCF. In related off-balance sheet exposures unused credit lines, because banks can revoke commitment in case of default will be deemed a 0% CCF. Materiality, provisioning categorization and analysis will consider individual customer level [2]. For exposures to financial institutions and central governments expected loss is zero.

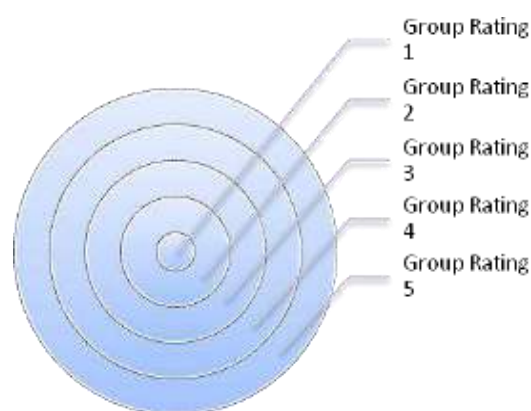
## 2. Analysis of depreciation

IAS 39 defines the objective evidence of impairment as observable data that come to the attention of the holder of the asset about loss events. Because of the correlation between loss events and classes definitions of default rating of Master Scale, all impaired assets will receive Class rating 5. Thus, impaired assets can be identified as having the rating systems of banks in May.

Family assessment systems - Rating

produce estimates of probabilities of failure. The definition of default is based on Basel II [3] and is implemented in risk factors assessment systems - hence defining rating class 5. It must be held that the occurrence of a default does not automatically mean losing money for financial institution. On the one hand, some customers are recovering after a default occurs. On the other hand, the financial institution can often make use of additional collateral to reduce or even prevent financial loss.

Figure 3. Classification rating groups



Source: Authors

### Group Rating 1

This class of evaluation can only be achieved with an external client that category. The only external evaluations accepted for this purpose are those of the agencies Moody's, Standard & Poor's, and Fitch IBCA. The evaluation group comprises only customers with excellent credit quality. The probability of a default is extremely low. For instance, bank rating system provides only 3 failings of 10,000 customers in class 1C assessment during a year. A default of a customer in this group will normally be possible only under extremely adverse and unexpected developments.

### Group Rating 2

They are customers with excellent credit quality. In the language of external rating agencies, assessment reviews in this category are considered investment grade. Customer evaluation of this group may suffer a default as well but the probability of this event is



relatively low. For the middle class of this group (2C) system expects from a sample of 1,000 customers to produce about 2 infringements on average in a year.

A default of a customer in this category of assessment will normally correspond perfectly to the dramatic deterioration of the economic conditions.

### Group Rating 3

While the top of this class (3A) is still investment grade, the risk increases significantly here from class to class. For a class of 3E evaluation system waits about 27 infringement within one year of a sample of 1,000 customers.

Especially for customers at the bottom of this class rating, average economic declines may lead to an infringement [4].

### Group Rating 4

4A and 4B subclasses evaluation indicates poor credibility. Customers with 4C and 4E assessments between failures are at risk and are put on the waiting list. The economic development of these clients must be monitored closely.

Even a small negative change in the economic environment of the company can cause a default.

### Group Rating 5

Customers rating class five are regarded as being in non-compliance. This state can be reached only by respective risk factors. But even these customers have the chance to return to class's assessment "active" - that is to "recover".

### 3. 1. Provisions for impaired assets - Provisions for impaired exposures individually significant (specific provisions)

Impairment of individually significant loan will be estimated based on the value and future cash flows of the period that the loan is likely to generate over its term. Those cash flows are discounted to the date for which reserves are calculated using the effective interest applies just before the event occurred depreciation.

Where specific allowance calculated on the basis of discounted cash flows is less than the provision that should have been

calculated for the asset based on the methodology of collective provisions related to the weakest rating not impaired (4E) and using adjustments for impaired loans, then for asset related provision shall be deemed 4E.

$$\text{Specific Provision} = \max [(Exposure - Recoveries updated) \text{ Collective Provision rating 4E}]$$

$$\text{Rebounds updated} = \sum \frac{CF_t}{(1+i)^t}$$

Exposure - all amounts payable by the client to date estimate (including principal, interest, fees, penalties, etc.).

CF<sub>t</sub> - cash flow at a time t. The most important future cash flows will come from payments made either by the customer or the execution of guarantees [5]. The costs (expenses for executing commissions for assessment of guarantees etc.) will be counted as negative cash flows.

t - Time in years when cash flow is estimated to take place.

i - Annual effective - interest.

Individual analysis conducted by the Departments of European financial companies may use in some justified cases, other cash flows and other criteria / period / discount adjustment factors. In these cases, the allowance will be determined after the individual assessment carried out by the relevant directorates and approved by the people / committees.

Individual analysis performed will cover at least the following exposures:

Figure 4. Exposures individual analysis



Source: Authors

#### 4. Cash flows under the repayment plan

For impaired loans that score less than 60 days overdue expects to make payments under the repayment plan until maturity. The provision is calculated using the following formula:

$$\text{Specific Provision} = \max [(Exposure - Recoveries updated) \text{ Collective Provision rating } 4E]$$

$$\text{Rebounds updated} = \sum \frac{CF_t}{(1+i)^t}$$

Customers who underwent replacement operations will be under observation for a period of 6 months. It was found that the rate restructure of customers who come back after six months in default rate is close to default rating for class 4E. Therefore for these customers will consider expected losses from guarantees execution with a corresponding probability for rating class 4E. The provision for these customers is calculated by the following formula - where the uncovered guarantees and the rate of loss are determined:

$$\text{Part uncovered guarantee (Unsecured)} = \text{Exposure} - \text{Value Guarantee} * (1 - \text{Adjustment})$$

$$\text{Provision} = \text{Part uncovered guarantee (Unsecured)} * \text{loss rate (LGD)} * PD \text{ } 4E$$

After the observation period of 6 months, if the customer registers a debt service by 60 days cash flows will be considered as repayment plan.

#### 5. Cash flows from collaterals

If the customer recorded a debt service over 60 days is unlikely reimbursement in accordance with the repayment plan. In these cases the cash flows derived from the execution of guarantees.

Taking into account the specificities of each type of collateral, discounted cash flows from the sale thereof is equivalent to applying the following adjustments:

- 37% of the market for residential mortgages (RRE); if the assessment is

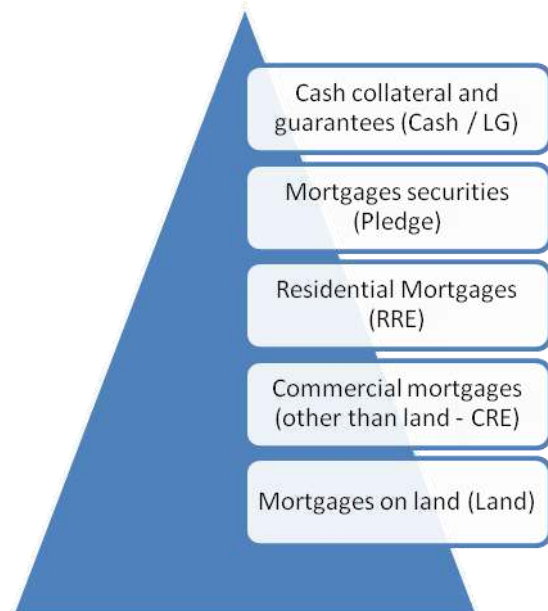
older than 1 year will consider an additional haircut of 8% per annum;

- 37% of the market for commercial mortgages (other than land - CRE);
- 55% of the market for mortgages on land (Land);
- Adjusting for other guarantees as SK SK1.

For the uncovered guarantees (Unsecured) loss rate (LGD) is 97%.

Cash flows from the execution of guarantees [6] will be taken into account depending on the opportunity and the recovery period; such priority allocation depending on the type of collateral is as follows:

Figure 5. Allocation Priorities



Source: Authors

$$\text{Part uncovered guarantee (Unsecured)} = \text{Exposure} - \text{Value warranty} * (1 - \text{Adjustment})$$

$$\text{Provision} = \text{Part uncovered guarantee (Unsecured)} * \text{loss rate (LGD)}.$$

#### 6. Provisions for exposures that are not impaired (portfolio provisions)

For exposures that are not impaired bank will collective provisioning. That means all exposures with a better rating of 5A will be included in portfolios with similar rates of loss for each such portfolio will calculate a

collective provision.

The reason it is these collective provisions is that, though none were detected loss events in healthy portfolio, such events may have happened.

Each active not impaired will contribute to the collective provision an amount equal probability of default (PD) \* Part uncovered guarantee (Unsecured) \* loss rate (LGD) \* detection period depreciation (LDP).

The probability of default is determined according to Master Scale rating for the exposure.

Banks currently focuses on the monitoring of portfolio and asset recovery [7]. In these circumstances any impairment will be detected within a maximum of 9 months.

Impaired exposures that are not covered by eligible collateral (real estate mortgages and other guarantees SK1). The value of guarantees is taken into account after applying adjustments

- 32% of the market for residential mortgages (RRE); if the assessment is older than 1 year will consider an additional haircut of 8% per annum;
- 32% of the market for commercial mortgages (other than land - CRE);
- 40% of the market for mortgages on land (Land);
- adjustment for other guarantees as SK SK1

For the uncovered guarantees (Unsecured) loss rate (LGD) is 97%.

$$\text{The guarantees uncovered (Unsecured)} = \text{Exposure} - \text{Value warranty} * (1 - \text{Adjustment})$$

$$\text{Provision} = \text{Probability of default (PD)} * \text{Part uncovered collateral (Unsecured)} * \text{loss rate (LGD)} * \text{detection period depreciation (LDP)}$$

## 7. Conclusion

The probabilities of default (PD) used are those of Master Scale ratings domestic related assets. Master Scale is the scale of ratings and default probabilities associated set of banking group.

Rating Systems estimates the probability of default (according to Basel II regulations).

The link between internal rating classes

and default probabilities is fixed. A possible deterioration of the loan portfolio will lead to a migration of exposures to rating grades or a recalibration / remodeling of internal rating systems in such a way that the default rates observed to be aligned with the theoretical. Back-testing process will be carried out at least once a year.

The rates of loss and impairment detection period will be reviewed at least once a year, and if it is found significant changes will be considered new values determined.

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## IFRS 9’s Impact on the Romanian Banking System’s Provisions

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### Abstract

*After the financial crisis in 2007, the accounting regulators and practitioners became aware of the deficiencies in the international accounting regulations about credit risk assessment and measurement. Therefore, IFRS 9 was released in order to replace the existing IAS 39.*

*One of the most important provisions of IFRS 9 is the replacement of the impairment loss model of credit risk evaluation with an expected credit loss model. It’s application will lead to an increase in bank’s provisions for non-performing loans and it may lead to a more stable banking industry.*

*The following paper presents the main provisions of IFRS 9 on the assessment of credit risk and reviews the current situation of the Romanian banking system in an attempt to determine the impact of IFRS 9’s implementation.*

**Key words:** IFRS 9, expected credit loss, non-performing loans, credit quality

**J.E.L. classification:** G21, M41

### 1. Introduction

The financial crisis that started in 2007 raised awareness on the utility of the International Accounting Standards for assessment and measurement of risk arise from financial instruments use. For these reasons, and because IAS 39 has been criticized by practitioners due to difficulties of understanding, interpretation and application, IASB has started a comprehensive project to replace IAS 39 with IFRS 9. The project was implemented in three stages since 2009 and was completed in

July 2014. In the first stage, the financial assets and financial liabilities were categorized. The second phase, completed in March 2013 was to develop a model of financial assets impairment to replace the "incurred loss" model in IAS 39. The last phase of the IFRS 9 was to develop a model of hedge accounting and ended in July 2014 with the publication of the latest version of IFRS 9. The Standard will be mandatory from 2018.

The provisions of IFRS 9 have a significant impact on the activity of commercial banks as they will have to modify the assessment of credit risk, moving from models based on "incurred losses" to models based on "expected losses". This will influence the level of provisions that banks will have to make in order to cover credit risk.

In the following sections we will first present the main provisions of IFRS 9 on the assessment of credit risk, we will review the current situation of the Romanian banking system under this aspect and we will try to determine the impact that adopting IFRS 9 will have on the Romanian banks’ accounting.

### 2. The expected credit losses model under IFRS 9

Under IAS 39 the impairment loss of a financial asset is recognized only after a trigger loss event has occurred. For banks, this signifies that a financial asset, such as a granted loan, is initially recognized in the financial statements at its total value, without considering a credit risk factor. After the initial recognition, when an event that can trigger a loss incurs, for example, when there is a default in payment, banks would perform the impairment test and recognize an

impairment loss when incurred.

The recent financial crisis proved that this incurred loss model failed to achieve the purpose of financial statements to provide complete and in time information to users regarding potential losses. Therefore, IASB elaborated a more forward-looking model of losses valuation, the expected credit losses model in IFRS 9.

Expected credit losses are an estimate of losses that an entity expects will result from a credit event, such as a payment default. Expected credit losses are a cost of lending activity. [1]

Under this model, the expected credit losses would be recognized at the moment when the instruments are originated or purchased and an allowance for expected credit losses or provision would be established. A 12-month expected credit losses must be recognized initially for all assets subject to impairment. [2]

The 12-month expected credit losses are the expected credit losses that can occur from default events possible within 12 months after the reporting date. An entity calculates 12-month expected credit losses by multiplying the probability of a default occurring in the next 12 months by the total (lifetime) expected credit losses that would result from that default. [1]

After the initial recognition, the entity must assess the credit quality at all financial reporting dates. If the credit quality deteriorates, a lifetime expected credit losses model must be used for the valuation of the instrument. Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the probability of default as the weight. [3]

The expected credit losses model in IFRS 9 outlines a “three-stage” model for impairment based on changes in credit quality since initial recognition [1]:

The first stage includes the financial instruments that have not had a significant increase in credit risk since initial recognition and for which a 12-month expected credit losses are recognized. At this stage, the interest revenue is calculated on the gross carrying amount of the asset.

In the second stage, for the financial

instruments that had a significant increase in credit risk since initial recognition but do not have objective evidence of impairment a lifetime expected credit losses are recognized. At this stage, the interest revenue is still calculated based on the gross amount of the asset.

The final stage includes financial assets that have objective evidence of impairment and that for which a lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount.

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

Let’s consider the following example: Bank A grants a 7-year term loan of € 50.000 to borrower B. Due to the borrower’s credit rating, the bank will charge a 5% p.a. interest rate and will estimate expected credit losses to € 5.000 p.a.

The present value of the lifetime expected credit loss of €5.000 p.a. for 7 years at a 5% discounted rate is € 28.932. The 12-months expected credit losses for the first year is € 4.762.

The initial recognition in the profit or loss statement will be represented by a € 4.762 impairment loss, evaluated using a 12-month expected credit losses model.

If at the end of the first year there is no significant deterioration of the credit quality, the 12-months expected credit losses will not be changed. But, if at the end of the first year, there is a significant deterioration of the credit quality, the bank will re-estimate the present value of the lifetime expected credit losses to € 25.378 and will recognize an impairment loss of € 20.617 (€ 25.378 - € 4.762) in the profit or loss statement. The loss allowance will therefore have a balance of € 25.378, equal to the lifetime expected credit losses at the end of the first year.

### **3. IFRS 9’s expected credit losses model impact on banks’ provisions**

After the release of IFRS 9’s final draft, many of the major international audit and accounting firms carried out surveys throughout the banking industry in the attempt to determine the impact of the new

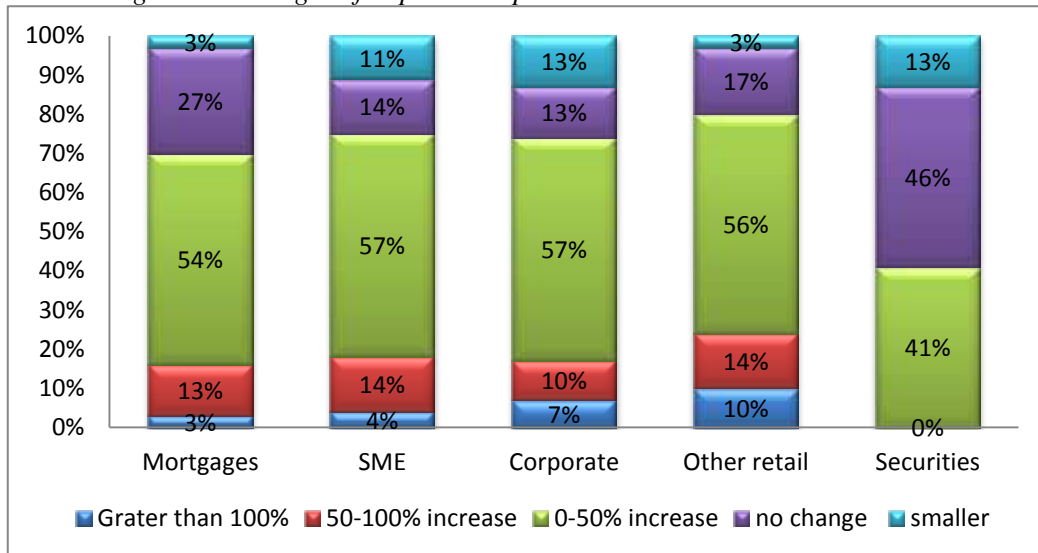
accounting regulations on banks’ major indicators.

One of the most comprehensive studies was released by Delloite in June 2014. 54 banks from Europe, Middle East and Africa, Asia Pacific and Americas responded to the survey, including 14 of the 29 global systemically important financial institutions and 25 of the top 50 global banking groups.

One of the most significantly findings of the survey related to the new valuation model of credit quality is the general believe among responders that impairment provisions will increase after IFRS 9’s implementation. [4]

Over half of the inquired banks expect an impairment provision increase of up to 50% across all assets classes:

Figure 1. Changes of impairment provisions value on transition to IFRS 9



Source: Delloite – Fourth Global IFRS Banking Survey

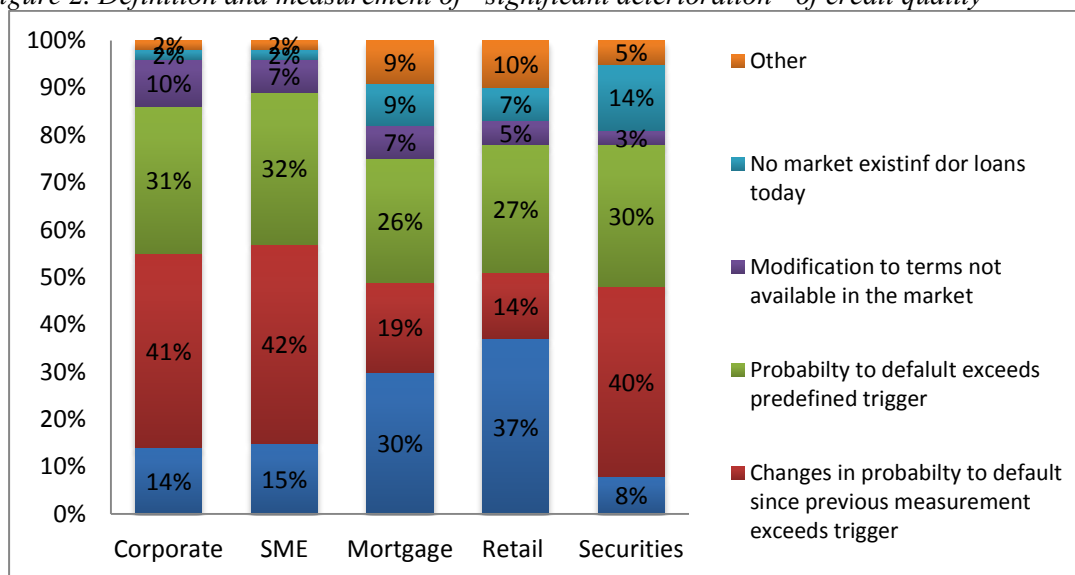
The results are mostly the same across all assets classes, except securities, for which 46% of the responding banks believe that there is a much bigger possibility that no changes in provisions will incur, while 41% believe there will be a value increase of up to 50%.

All the results are based on today’s credit

environment conditions, but they increase significantly should credit quality decline.

Another important issue related to IFRS 9’s implementation is the way banks will define and evaluate the “significant deterioration” of credit quality. The Delloite survey responders choose the following answers:

Figure 2. Definition and measurement of “significant deterioration” of credit quality



Source: Deloitte – Fourth Global IFRS Banking Survey

For all assets classes, a large number of banks consider that the “significant deterioration” of credit quality can be define and measured by the probability to default exceeding a predefined trigger. For mortgages and retail credits, most of the banks plan to use a one missed payment model of credit risk valuation, while for corporate, small and medium enterprises and securities the changes in probability to default will be more important.

In our opinion, these findings prove that banks understand the scope of IFRS 9 and that, if applied as stated, the expected credit losses model can improve the banking industry’s stability. The previously stated findings also lead to the conclusion that banks learned something for the 2007 financial crisis and are more careful in evaluating the risks involved by mortgages and retail credits.

#### 4. Where is the Romanian banking system now in terms of provisions?

As stated in the previous chapter, the international banking industry believes that after applying IFRS 9 the amount of provisions for nonperforming loans will increase by up to 50%. In the following

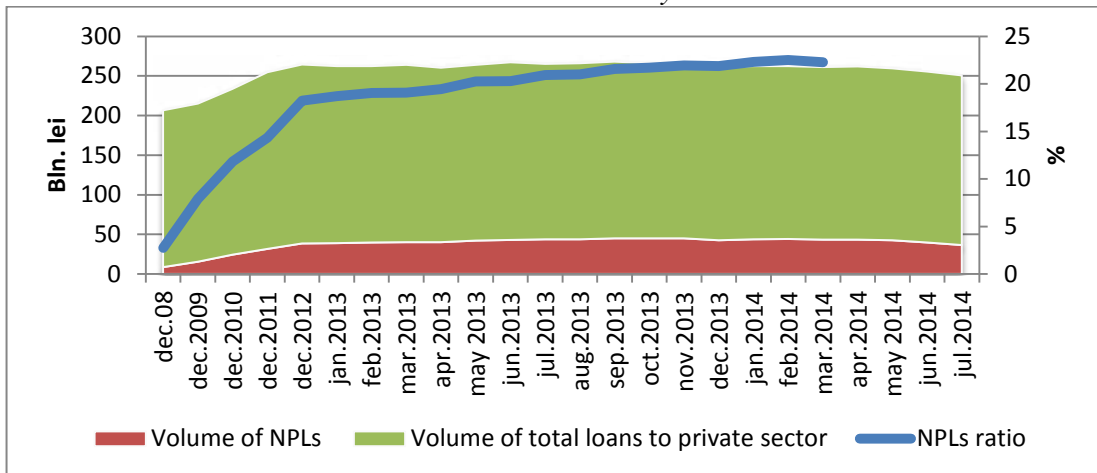
chapter we will try to assess the impact of such an evolution on the Romanian banking system. In order to do this we will first take a look at the current situation in Romania in terms of non-performing loans and provisions.

In the last decade, mostly after the financial crisis begun, we have witnessed deterioration in the credit quality of the Romanian banking system.

From comparing the value of the non-performing loans ratio for the 28 EU countries during 2007 to 2014 we notice a deteriorating credit quality in most EU countries in the post-crisis period. This trend is even more pronounced in countries with less developed economy. Countries that have the highest credit quality deterioration are the ex-Soviet countries, Bulgaria, Hungary, Croatia, Greece and Romania. Among Euro area countries Finland and Luxembourg had a constant evolution of the indicator, while all the other countries recorded increased levels of non-performing loans.

In Romania’s case, the non-performing loans ratio increased significantly in this period, reaching a historic high of 22.3% in 2014, but this increase is mainly due to a lower volume of total loans and less to the deterioration of credit quality (figure 3).

Figure 3: The evolution of total gross loans, NPLs and NPLs ratio in Romania between December 2008 and July 2014



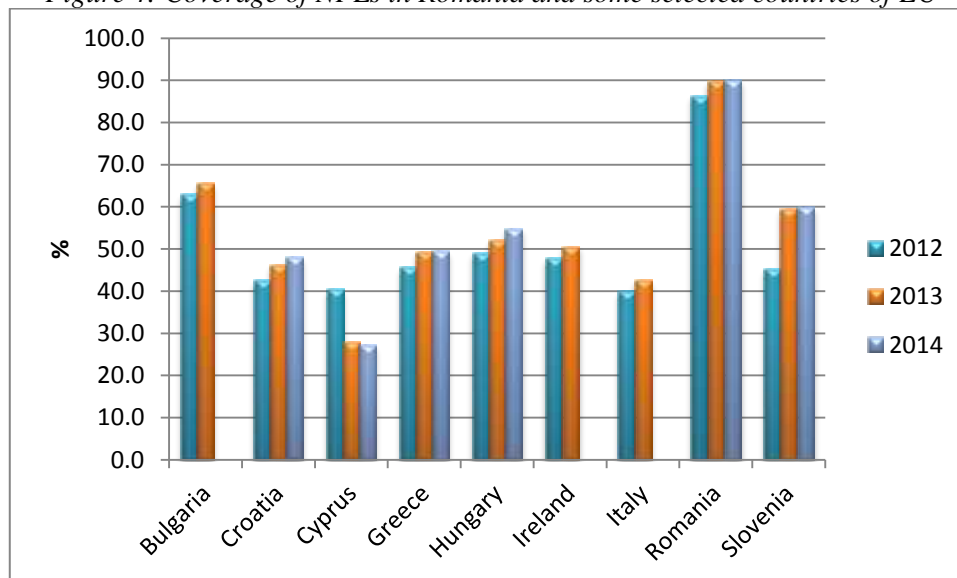
Source: National Bank of Romania Financial Stability Report 2014, [www.bnr.ro](http://www.bnr.ro) [5]

The total volume of loans given by banks to the private sector decreased in July 2014 by almost 10 bln. lei compared to the value of January 2013, while NPLs volume recorded at the same two milestones a decrease of about 2 bln. lei. In absolute terms, the highest level of NPLs volume of 45.11 bln. lei was reached in November

2013, registering a downward trend thereafter to a low of 36.55 bln. lei in July 2014.

Same as other EU countries, the banking system in Romania protected itself against the risk of non-performing loans by provisioning exposures in accordance with IFRS requirements applicable from 2012 (figure 4).

Figure 4: Coverage of NPLs in Romania and some selected countries of EU



Source: The IMF Financial Soundness Indicators, October 2014 [6]

Compared to other EU countries that reached NPLs ratio values in the same range during the analyzed period, the level of provisions in Romania is proving to be significantly larger, reflecting a higher level of caution of the Romanian banking system.

These findings lead us to the conclusion that, should Deloitte’s survey scenario apply, the Romanian banking system will further increase the amount of non-performing loans provisions, making it one of the largest covers in the EU.



## 5. Conclusions

The expected credit losses model of IFRS 9 will, in our opinion, increase the banking industry's stability. It will allow banks to be better prepared for the default of borrowers.

But this doesn't come without costs. One of the major concerns of practitioners is that the timeframe for IFRS 9's implementation (until 2018) is not long enough and the budget requirement will exceed billions.

In Romania's case, the level of provisions for non-performing loans is already one of the largest in the EU but, we do not believe that an increase can be harmful for the system; on the contrary, it may lead to a more stable credit environment and it may allow banks to relax their lending policies.

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## Connection between the Significance Threshold and the Risk of Audit in Entities in the Constructions Field

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### Abstract

*The significance threshold estimated on the occasion of planning the financial audit is divided at account and individual transactions level on which the financial statements are based.*

*The significance threshold is not an absolute amount. It represents a grey area between what is probably insignificant and what seems to be significant. In the beginning of the audit mission reasoning regarding the dimension and the nature of the erroneous presentations considered significant. [1]*

*The significance threshold illustrates the effect that the errors contained by certain audit evidences has on the financial statements. For example, an erroneous information on the level of fiscal amortisation taken into account in determining the computation of the profit levy or the erroneous determination of certain provision expenses for an uncertain client, may turn loss into fiscal profit and the other way around.*

**Key words:** significance threshold; risk; audit; constructions; error.

**J.E.L. Classification:** M40; M41; M42.

### 1. Introduction

The International Standards for Auditing (ISA 320) stipulate that the significance threshold must be taken into account by the auditor when:

- the nature, time frame and duration of the audit procedures is established; and
- the effects of the erroneous presentations are evaluated. [2]

According the audit standards applied within the member states of the European

Union (EU), the significance threshold is computed by applying a percent between 0.5% and 2% to the calculation basis (for example: 0.5% of the turnover, in the case of auditing the value added tax (VAT); 0.7% of imposable profit, in the case of auditing the profit levy; 1% of salaries expenses, in the case of auditing the income levy).

### 2. General approach of the significance threshold

One of the objectives of the auditor is also “to obtain reasonable insurance regarding the extent to which the financial statements, in their entirety, do not contain significant deformations, caused either by fraud or by error, thus allowing the auditor to express an opinion regarding the extent to which the financial statements are presented, from all significant points of view, in accordance with the applicable financial reporting framework”. [3]

The significance threshold will represent for the financial auditor an amount or a percent determined based on professional reasoning.

For example, at the company GRIGORE SA, activating in the field of residential and non-residential constructions, a level of the global significance threshold of 80,000 lei may be recouped on certain individual accounts, such as the cash register, clients, suppliers, stocks etc. accounts. The practical way of distributing the above-mentioned amount of 80,000 lei lies in dividing the amount depending on the weight of the balance in each account in the total balance of the analysed accounts. For example, if the balance of the analysed accounts is 12,000,000 lei and the balance of the “Clients” accounts is 12,000 lei, which represents 0.1% of the total amount, then for this account the individual significance

threshold is 80 lei, resulting from  $80,000 \cdot 0.1\% = 80$  lei, and any error that is equal to or greater than this threshold will be considered significant.

Another example done in praxis is that of the “Goods: account. In an audited entity this might represent a weight of 20% of the total balance, but the amount of 1550 lei that could be established as individual significance threshold is diminished to 500 lei because of the special importance that the stocks have for the entity, in which case the extent of the audit procedures put into practice for stocks will, of course, be bigger.

### **3. Relationships between the significance threshold and audit evidence, and their consequences**

The level initially established for the significance threshold is not fixed; it may be modified when there is evidence for which certain corrective measures were taken for the errors or multiple errors are discovered in the audit process of the entity in comparison with the initial expectations.

In practice, the financial auditor sums the values of found errors in order to determine whether they are significant and the auditor appreciates whether the value of the errors exceeds the significance threshold. Also, the value of the errors that might have remained undiscovered is estimated.

The risk of audit decreases as the value of the uncorrected errors exceeds the significance threshold initially established and supplementary audit procedures may be required.

By applying the audit procedures, the auditor collects a series of evidences on which he/she will base his/her decision. The collection and evaluation of the evidences are based on the extent and the importance of the detected errors or, in other words, the global or the individual significance threshold. Thus, when the threshold level is high, the auditor applies narrower audit procedures to collect the necessary evidence for formulating an opinion. Consequently, the evidences are fewer and the error margin is bigger. To the opposite end, when the significance threshold is low, the efforts are bigger, because each discrepancy, that would have otherwise been ignored, must be justified with evidences. [4]

### **4. The risk of audit**

Risks related to general organisation of the entity; may occur due to several factors, such as: the nature and the complexity of the organisation structures and the relationships between these structures increase the risk of error; proper management of resources diminishes the risks; the accounting and the internal control systems rationally and rigorously conceived also leads to diminished error risks; the existence of clear procedures for information processing, accurate distribution of work tasks also provides circumstances of errors risk reductions.

Depending on the nature of the analysed operations, the risks refer to the following three types of data recorded in the accounting documents:

- a) reiterative data, that are associated with the current activity of the company and are processed and recorded in a uniform way, the risks for errors occurring being determined by the conception and the functioning of the accounting system;
- b) data points, appearing at irregular intervals (on the occasion of inventory, in establishing the amortisation coefficients, of the repartition coefficients, for analysis and repartition of provisions etc.) and for which the probability of risk occurrence for errors depends on observing the principle of methods permanence in the activity of their collection;
- c) exceptional data, occurring in total exceptional cases in the activity of the company (re-evaluations, fusions, dissolutions etc.) and for which the risk to generate errors is bigger.

The inherent risk is related to the environment of the audited entity. Thus, any economic activity induces a certain degree of risk in error occurrence, depending on the nature of these activities, on the adopted policies and the situation of the entity at a certain point.

Evaluation of the inherent risk is done in the preliminary phase of the audit. The objective of this evaluation is to give the auditor the possibility to formulate a preliminary point of view on the audited entity, which to take into account subsequently in the audit planning process.

The inherent risk is determined by the following factors: the nature of operations; the policies chosen by the entity; the situation of the entity; the accounting, financial and fiscal regulations (the regulatory inherent risk).

The risk related to the nature of the operations is determined by the activity sector of the entity and its structure.

The risk related to the policies chosen by the entity refers to the influence of the correct transposing in the accounting records of all economic and financial operations that took place within the audited entity during the period analysed.

1) The risk related to the situation of the entity refers to the financial situation of the company, reflected in the accounts. Thus, a favourable financial situation will generate availability excess, which must be efficiently placed, and a less favourable financial situation will generate availability deficit, which the enterprise will seek to cover through commercial credits (suppliers) or/and bank credits.

The regulatory inherent risk is determined by the complexity of accounting, financial and fiscal regulations. The bigger the complexity of these regulations, the greater the probability of errors risk.

2) The control risk is related to the procedures and the quality of internal control, also known as risk of non-control or non-managing, and it aims at controlling the operations and the accounts. In order to control this risk, it is necessary to evaluate the internal control system of the entity.

Controlling the operations refers to respecting the procedures in order to ensure the integrity and efficient management of the entity's patrimony.

Controlling the accounts refers to ensuring, through accounting and internal control systems, that the accounting records concord with the real operations made by the entity and registered in justificatory documents, and that these are not recorded twice or their registration was not omitted. This control of the accounts depends on the reliability of the accounting system used.

3) The non-detection risk refers to the risk that a significant error, which is not corrected by the internal control system, is

not detected by the auditor. Thus, through the substantive procedures used by the auditor, he/she may not detect an erroneous information existent in the accounting records or in the balances of certain accounts, that may be significant in itself or cumulated with the errors in other records or in other accounts.

For avoiding or limiting these risks, the auditor must use the most adequate substantive procedures, which depends on the experience and professional training of the auditor:

a) The statistic survey techniques represent an estimation of the determined result by analytical research of a part of the total analysed information. This estimation is based on two indicators, the allowed deviation and the precision of the result.

The allowed deviation represents a relative measure of the probability that the estimation result is inexact.

The precision of the result represents the interval in which the estimation result lies.

**The mathematical model of the audit risk** (the equation of the risk of audit) is the following:

$$R_a = R_i \times R_c \times R_n$$

hence:  $R_n = \frac{R_a}{R_c \times R_i}$

where:

- $R_a$  – represents the risk of audit;
- $R_i$  – inherent risk;
- $R_c$  – control risk;
- $R_n$  – risk of non-detection.

For example, if we assume that the risk of audit requested by the client is 2% and the auditor estimates a 20% level of the inherent risk and a 50% level of the control risk, based on the equation above, the risk of non-detection may be computed as follows:

$$R_n = \frac{0,02}{0,5 \times 0,2} = 0,2, \text{ thus } 20\%.$$

The auditor must appreciate the inherent and control risks, and based on them will use the adequate procedures with the view to diminishing the risk of non-detection to a level that ensures an acceptable global level of the risk of audit.

In ISA 320, the significance threshold is mentioned that the relationship between it and the risk of audit is indirect. The higher

the level of the significance threshold, the lower the risk of audit and vice-versa. [2]

Despite his/her efforts, the auditor comes under the inevitable risk that some significant errors from the annual financial statements will not be detected, even if the audit is planned and done properly.

The existence of this risk is caused by the fact that the frauds involve actions that have as purpose masking them. Such actions may, for example, result from the association of several persons with the purpose to commit frauds, or through forgery, or by deliberately not recording transactions, through incorrect declarations given to the auditor.

## 5. Conclusions

If following the audit mission, there is no evidence to the contrary, the auditor is entitled to accept the declarations of the management as correct, and the records and the analysed documents, as real.

For this reason, the auditor is aware of the fact that the significance threshold must be determined depending on the extent to which he/she is willing to take such a risk.

To exemplify, it may be said that: the audit procedures as reaction to the evaluated risks of significant denaturation following fraud at affirmations level may include the modification of the nature, the moment and the coverage area of the audit procedures. For example, if there is a risk of “inflating” the income (there is pressure on the management to fulfil certain expectations regarding incomes), the management may deform sales by closing sales contracts that stipulate invoicing before delivery etc. [5]

We have to take into account the significantly aspect of the errors, if they determine or generates monetary hijackings or they have a low impact in taking an expression decision for a professional opinion, the financial auditor will quantify the error cause and the effect resulted for the other steps of the audit.

The users of the financial statements expect an audit report to be without reserves, to guarantee the truthfulness of the financial statements, for which the following may be said:

- The general manager must know the entity’s business very well, as he/she is the one who can maintain or

increase performance. Together with the management board, the general manager chooses the accounting treatment of data that is to be applied and the declaration practices of the entity with regard to financial statements. Thus, the management is responsible for the way the financial statements are made;

- The auditors must be sure that the yearly financial statements audited are correct and real.

The financial auditors must be independent with respect to the audited financial statements. More precisely, they did not take part in the elaboration of these documents even as consultants.

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# Comprehensive Income Reporting by Listed Companies on the Bucharest Stock Exchange. Econometric Study

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## Abstract

*It is known that, among the components of financial statements, a statement of profit and loss allows users to assess aspects of the company's performance through accounting result. But, with business development and expansion of multinationals, investors showed interest not only for accounting result, but for a comprehensive income or economic. At international level, issues concerning the determination of Comprehensive income are not recent. In Romania, however, with the application of International Financial Reporting Standards (IFRS) for the preparation of financial statements of listed companies, starting with the financial year ending at the end of 2012, the concept of comprehensive income acquires another dimension. In this context, we consider it necessary to analyze, through an econometric study, how to report Comprehensive income in the financial statements by a representative sample of companies listed on BSE, the frequency of elements Comprehensive income and the influence of individual components on whole.*

**Keywords:** comprehensive income, net income, financial statements, listed companies, Bucharest Stock Exchange, IFRS.

**J.E.L. classification:** M41, M48, M49.

## 1. Introduction

As I mentioned in the summary, determination of a comprehensive income was required, with the expansion of multinational companies, as investors were not satisfied only with the determination of an accounting

result. They have shown a special interest in comprehensive income or economic. If you try searching the word “profit”, we find that it comes from the latin “proficere”, which means to produce [1], to do something in advance, to ensure growth, development and expansion. Economic activities are those that contribute to development, which is why the result is called economic result.

The result in the profit and loss is determined as the difference between total revenue and total expenditure recognized in accordance with accounting principles. Economic result, as claimed by some authors [2], is the difference between total revenue and opportunities of all factors of production used in a while, that everything is in entries.

In other words, the comprehensive or economic income includes both revenues and expenses, and gains and losses, which depends more on external factors that can not be controlled, usually by the enterprise.

## 2. Present stage of knowledge on the comprehensive income reporting

Determination and reporting of comprehensive income requirements are not just recent. Thus, in the USA, FASB, issued since 1977 a rule, SFAS 130 “Comprehensive income”. According SFAS130, comprehensive income can be presented in several ways: as a separate financial statement, as important as the other components of the financial statements; as a separate line in the balance sheet or intermediate a financial statement. In any variation, comprehensive income is derived from net income, adjusting then doing it with gains and losses.

Later in Great Britain, ASB (national

standardization body) issued in 1992 accounting rule FRS 3, entitled “Reporting financial performance”. In the appendix to this rule is presented an array of all gains and losses, that give rise to comprehensive income in the same vision as the SFAS 130.

To ensure harmonization and convergence of accounting systems, the international normalization, IASB (former IASC), issued in 1997 the standard IAS 1 "Presentation of Financial Statements" (revised) which contains issues relating to comprehensive income or economically provided through a separate situations. Article 8 of the rules provide that financial statements are complete and include ... a statement of changes equity where reflect all changes in equity or changes in equity, other than those arising from transactions with owners. The reason it is considered important that the financial statements contain such a component is to be found throughout the content of the rule, namely: "Whereas it is important to consider all items of income and expense in assessing changes in an entity's financial position between two dates balance sheet, IAS 1 requires the presentation of a statement of changes in equity that highlights total revenues and expenditures of the entity, including those that are recognized directly in equity". [3]

The reference to comprehensive income was made and the Framework for the Preparation and Presentation of Financial Statements, developed by the International Accounting Standards Board in 1989 (currently, Conceptual framework for Financial Reporting), with the presentation aspects of financial capital maintenance. Under this concept, the result is determined as the difference between the financial value of net assets at the end of the period and the financial value of net assets at beginning of period, after being excluded distributions and contributions from owners during the period. It is certain that the net asset value or equity includes all income and expenses, and any gains or losses recorded during the period.

*Gains* are increases in economic benefits that may arise or result from current activity and which do not differ in nature from revenue from this activity. *Losses* are decreases in economic benefits and may result or not due to the current activities of the entity, without differ in nature from other

expenses. [3]

In IAS 1 "Presentation of Financial Statements" updated, aspects of comprehensive income changes a lot. IASB decided that all changes in equity not resulting from transactions with owners must be presented in a statement of comprehensive income or in two statements: income statement and a statement of comprehensive income, shown separately. [4]. In other words, it is not permitted to present components of comprehensive income in the statement of changes in equity. This is different from the provisions of SFAS 130. Statement of comprehensive income which is based on net income is adjusted by the following items: changes in revaluation surplus; actuarial gains and losses of defined benefit plans; gains and losses arising from translating financial statements of foreign operations; gains and losses from revaluation of financial assets available for sale; gains or losses on instruments hedging cash flows (effective part).

In Romania, the first stage of the accounting reform, not interested too much capital change because the state was still the majority shareholder, if not unique, and to other users that information was irrelevant. [5] With the appearance of privatization, they began to be increasingly interested in users who wanted to become investors. [6 și 7] If by 2000 the preparation of a statement of changes in equity was not required by any law, after 2000, large companies falling under accounting regulations with International Accounting Standards /International Financial Reporting Standards and were obliged to draw such a situation. In recent years, Romanian Accounting Standards (RAS) stipulated that at the balance sheet entities that exceed two of three criteria were required to prepare annual financial statements that include a statement of changes in equity. Since 2012, with the publication of OMPF 1286 [8] listed companies must comply with IFRS for the preparation of financial statements. In this context, it clarifies things in the sense that all entities covered by those rules must draw, in addition to other components of the financial statements and statement of comprehensive income.

This study aims at reporting how individual annual financial statements by a

representative sample of Romanian companies listed on the Bucharest Stock Exchange and the elements of comprehensive income that influence significantly the gap between it and net income.

### 3. Research methodology and empirical data source

Research undertaken for the preparation of this study is conceptual-methodological nature. The methodology is based on *deductive reasoning*, starting from the current level of knowledge presented in the literature.

This study aims to find relevant answers to the following questions:

- *Are there differences between net income and comprehensive income (net result – positive, comprehensive income - negative or vice versa)?*
- *What are the gains and losses most frequently reported under other comprehensive income?*
- *Who gains and losses in other comprehensive income have the highest share in the statement of comprehensive income?*
- *Which of the components Comprehensive income significantly influence the global financial performance?*

Based on these questions, we formulated the following hypotheses:

1. *All components comprehensive income significantly affect its size.*
2. *Comprehensive income is directly proportional to net income and revaluation differences.*

For this study we selected a representative sample composed of companies to which they are incident IFRS. [8] We have not included in this study unlisted companies because of their financial statements are prepared under the accounting regulations compliant with European directives, that do not require the preparation of a statement of comprehensive income and no credit institutions, although preparing financial statements in accordance with IFRS.

Consequently, the study is conducted on a sample of 64 companies listed on BSE (15 of these are listed under Tier I and 49 are listed on Tier II) and refer to the financial statements prepared for the year ended end of

2012, with comparatives under IFRS reconciliation for 2011.

*The variables* studied are numerical and categorical variables. For models that use numerical variables, they are defined by absolute values and for the presentation of comprehensive income relations and other ingredients that give its size, the variables were converted into categorical variables in numeric variables.

Regarding *the research methods*, *data collection* is based on the observation method by user observation, combining quantitative and qualitative approach by analyzing documents; *Data processing* is performed using econometric models [9] (*multiple linear regression*), and using tables association (*Crosstabs*); *Data interpretation* is based on causal explanation [10], and present relations between the two categorical variables. The data is processed using SPSS 19.0 statistical tools, software modules that are useful for the preparation, processing and output to test working hypotheses.

To collect the data used in our research, the information sources were the annual financial reports downloaded from websites related to companies listed on the BSE.

### 4. Results and discussions

As mentioned previously, the empirical study is made on a sample of 64 companies listed on the BSE, on tier I and II and aimed at financial years 2011 and 2012.

To test the first hypothesis, resort to the use of tables association (*Crosstabs*) for the presentation of comprehensive income and the relationship between its components, in order to answer the first three questions above. Categorical variables are defined as: **CI** – Comprehensive Income (0 - negative; 1 - positive); **NI** – Net Income (0 - negative; 1 - positive); **DIHCF** - Differences Instruments Hedging Cash Flows (0 – not; 1- positive; 2 – negative); **Rev\_Res** – Revaluation Reserves (0 – not; 1- positive; 2 – negative); **AGLDBP** - Actuarial Gains and Losses on Defined Benefit Plans (0 – not; 1- positive; 2 – negative); **DFVFAS** - Differences in Fair Value on Financial Assets available for Sale (0 – not; 1- positive; 2 – negative); **OCI** - Other comprehensive income (0 – not; 1- positive; 2 – negative).



The data processed using SPSS 19.0 statistical tools are summarized in the tables below.

Table 1. Check Hypothesis 1

Components of Comprehensive Income		CI 2012	
		negative	positiv
NI 2012	negativ	22 e – 34%	0 e
	positiv	4 e – 6%	38 e – 60%
DIHCF 2012	not	25 e – 38%	36 e – 56%
	positive	0 e	1 e – 2%
	negative	1 e – 2%	1 e – 2%
Rev_Res 2012	not	9 e – 14%	22 e – 34%
	positive	10 e – 16%	10 e – 15%
	negative	7 e – 11%	6 e – 10%
AGLDBP 2012	not	25 e – 39%	35 e – 54%
	positive	0 e	3 e – 6%
	negative	1 e – 2%	0 e
DFVFAS 2012	not	24 e – 38%	36 e – 56%
	pozitive	0 e	2 e – 3%
	negative	2 e – 3%	0 e
OCI 2012	not	26 e – 41%	36 e – 56%
	negative	0 e	2 e – 3%

Source: SPSS 19.0 statistical processing results

Based on the table above, we try to answer the first three questions, so as to support or reject Hypothesis 1. We mention that data interpretation preluarte was made only for 2012, 2011 restated situation is very similar. To answer the first question: *Are there differences between net income and comprehensive income (net result – positive, comprehensive income - negative or vice versa)?*, we see that in 34% of cases, negative net income produces a negative comprehensive income (22 entities) and in 60% of cases, positive net income determined a positive comprehensive income (38 entities). Only 6% of the cases studied (4 entities), the net income is positive and the

comprehensive income is negative. This difference is due to the influence of other components of comprehensive income, analyzed further.

*Gains and losses most frequently reported under other comprehensive income*, except net income relates to revaluation reserves (31% positive differences and 21% are negative differences, all reported 33 cases), followed by differences actuarial on defined benefit plans (6% of cases) and differences in fair value on financial assets available for sale (3% of cases). It concludes that the largest share in comprehensive income, outside net income, hold revaluation differences at the level of 2012. Therefore, **Hypothesis 1** is not demonstrated, *that not all components comprehensive income significantly affect its size.*

Thus, from this result, we attempt to answer Question 3: *Which of the components of comprehensive income significantly influence the global financial performance?* and such test Hypothesis 2: *Comprehensive income is directly proportional to net income and revaluation differences.*

To test this hypothesis, we used a multiple linear regression model, the numerical variables are: **CI** – Comprehensive Income, **NI** – Net Income and **Res\_Rev** - Revaluation Reserves.

The regression model is of the form:  $Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \epsilon_i$ . This model tested the influence of net income and revaluation reserves (independent variables) on comprehensive income (dependent variable).

After processing in SPSS 19.0 and obtaining regression coefficients, we present multiple linear regression model:

$$CI_{2012} = 120128 + 1010 \times NI_{2012} + 1034 \times Res\_Rev_{2012} + \epsilon$$

The obtained require some explanations and comments. First, according to the results obtained from the processing carried out, we find that the value of Sig. to F is less than 0.05, so that the relationship between the variables considered to be significant or otherwise, the model is statistically significant.. Report of determination  $R^2$  equal to 1 indicates that the dependent variable ( $CI_{2012}$ ) is influenced by independent variables in 100% ( $NI_{2012}$ ,  $Res\_Rev_{2012}$ ). This result appears ground that other comprehensive income are significant and have a very low frequency of occurrence,

which makes  $R^2$  is equal to 1. Regarding testing regression model parameters, for given example, value Sig. is less than 0.05, which indicates that  $\beta$  corresponds to a significant links (direct and positive) between the dependent variable and independent variables. More exactly, an increase of one unit of net earnings, Comprehensive income growth is 1010 lei, on average, and an increase of one unit of revaluation reserves, increased Comprehensive income is 1034 lei on average. Therefore, we can say that *comprehensive income is directly proportional to net income and revaluation differences for the companies in the sample studied.*

## 5. Conclusions

As a general conclusion of the study conducted, we can mention that in the sample analyzed for the period envisaged is justified only the second hypothesis.

In other words, not all components Comprehensive income significantly affect its size for the sample, and for the period under study. As we have seen, comprehensive income is directly proportional to net income and revaluation differences. However, the regression model, we noted that the revaluation reserves influences a greater comprehensive income to net income. We believe that this is because net income negative sizes are larger than the sizes of the negative revaluation reserve.

Although I started researching given a period of two years (2011 and 2012 restated), however we stopped the financial year 2012, as data for 2011 reveal the same issues. Thus, we can mention one of the limits of the research: the limited period of time to which they relate. In further research, we try to approach a longer period, in order to analyze the elements Comprehensive income development with the application of IFRS and the individual financial statements of listed companies.

Another conclusion I reached from this study aimed at presentation of statement of comprehensive income. As I mentioned at the beginning of this study, IAS 1 "Presentation of Financial Statements", updated, calls for entities to present items of revenue, expense, gains and losses in a single statement of comprehensive income or in two

statements: income statement and comprehensive income statement. After collecting the data, we found that all companies in the sample, were presented items mentioned in two statements relating to the income, separated..

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## Theoretical Fundamentals and References on the Elaboration and Presentation of the Financial Situations

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### Abstract

*The financial statements are the final product of a long and complicated process of registration of the operations, financing and investment for a company. The structure of the financial statements reflects the company's organizational system. In order to be informed, any user of the financial statements needs to know the principles of their drawing up system. The purpose of the users of financial statements is to take a picture as accurate as possible of the state organization. The internal users are interested in this in order to take appropriate decisions on the functioning of the organization. The external users, on the other hand, are interested to make a decision on lending, financing, acquisition of shares, bonds, entering into business relations or various other reasons.*

**Key words:** accounting harmonization, annual accounts, historical cost, IASB

**JEL Classification:** G3; G32; G34

### 1. Introduction

The acquirement of the economic universe of the environment is achieved through informational products, which, in the accounting area, have a documentary character required by the process of synthesis and generalization of the information in time and space, on different organizational levels. The hierarchy continues in a constant change of the user's needs, by the socio-economic reality resulted in a corresponding evolution of the synthesis documents and accounting reporting, these being designed to meet the requirements of the beneficiaries of the accounting information.

The representation of conflicts of interests of the users of the financial information

towards the accounting synthesis documents allows the definition of the financial information policies of the company, for a better use.

Given these aspects, we believe that the accounting synthesis documents are a social information system designed to meet the information needs of users, needs caused by political and social stakes.

We also consider that the accounting synthesis documents represent the means which ensure the publication of accounting information, being relevant when the communication takes into account the forecasted information [4].

When we talk about accounting, its own method of analysis of the assessment, processing, and reporting of financial and accounting information includes a set of methodological steps and technical procedures used in achieving the objectives: establishing the importance of the accounting and tax regulations, national and international; the impact of adopting the international ones in the process of presentation / reporting of the financial accounting information [1].

The financial statements represent the final product of the accounting activity. They represent the classification and integration of a cumulation of financial transactions, with various degrees of complexity. By means of the financial statements, financial information is provided to external users in the process of financial reporting of an entity.

The US financial statements do not have a standard model; nor the denomination of financial statements is standardized, so that both the balance sheet and the profit and loss account can have several names.

The international standardization body - the International Accounting Standards Board (IASB) by standard IAS 1 – *The Presentation of Financial Statements* defines the financial statements as a structured representation of

the financial position and performance of an entity and of its transactions, with the objective of providing information about the financial position, performance and changes in the financial position of an entity to a wide variety of users. The objective of this Standard is to prescribe the basis for the presentation of financial statements so that to ensure comparability both with the financial statements of the previous periods and with the financial statements of other entities. These international standards adopt the concept of deregulated financial statements based on the concept of a minimum of information without regulating a standard form for the elements of financial statements. This is confined to listing the components of the basic financial statements: assets, liabilities, equity (stock), income and expenses (profit and loss account), cash flows of an entity [7].

Besides the standard set of financial statements, an entity may present a financial analysis conducted by the management of the company, covering the main features of performance, financial position and the principal uncertainties they face [1].

Directive IV adopted the concept of regulated financial statements based on the model of maximum of information - it provides the scheme and the standard models that define the content and the format of the financial statements. In order to eliminate the differences between the provisions of the European Directives and the provisions of international standards, Directive IV has undergone some changes allowing comparability for the companies reporting under IFRS but have the Directives as basic legislation [5].

In Romania, the compositions of the financial statements differ depending on size criteria (total assets, turnover and the average number of employees). Thus the entities that meet two of the three size criteria draw up a set of annual financial statements that comprise: balance sheet, profit and loss account, the statement of changes in equity, the cash flow statement, explanatory notes to the financial statements. The other entities draw up simplified financial statements including: abridged balance sheet, the profit and loss account, explanatory notes to the simplified annual financial statements. Optionally they can provide the statement of

changes in equity and / or the cash flow statement.

## **2. The balance sheet**

The balance sheet is a basic concept, particularly important, used frequently to operate in the theory and practice of accounting.

Although the balance sheet is known and used for centuries in the accounting practice, it becomes the object of some special research only at the end of the last century. The research on the role and functions of the balance sheet have then widened a lot, thus resulting from these numerous research theories of the balance sheet [4].

The balance sheet is a system that represents the correlation between the economic means and the resources of their formation in a balanced relationship between assets and liabilities, ensured by the financial results - profit or loss - obtained during the reference period. Within accounting, the balance sheet performs a financial accounting function, ensuring the opening and closing of accounts as well as the presentation at year-end of the existing economic means and training resources, including the results of their activity [7].

## **3. In the vision of the Romanian norm setters**

Within the two stages of the accounting reform in Romania, there may be noted the option of harmonization of the structure and content of the balance sheet with the requirements of Directive IV. Choosing a balance model or another, of the two schemes provided by the Directive, has not been made following some analyzes of the Romanian norm setters, this approach being the consequence of counseling of foreign experts who contributed to the reform process.

We can say that with these regulations, the Romanian norm setters have chosen the model found in the British practice, the balance sheet as a list. Without the regulations to specify this, the balance sheet model is mainly directed towards the liquidity and solvency analysis. It approaches, in structure and design, to the provisions of international accounting referential, stating, however some

incomparability's with standard IAS 1. While maintaining the older option, the Romanian norm setters enroll the set up expenses in the structures of intangible assets, and thus create an incomparability with standard IAS 1.

This balance sheet format offers the possibility of calculating some liquidity indicators as: net current assets, current net liabilities that actually reflect the value of the necessary floating capital fund and the total assets minus current liabilities that reflect the value of permanent capital. By comparison with the revised version of IAS 1, it is noted that this standard allows the presentation of an indicator called net assets that actually reflects the net situation, but it does not exclude the presentation of an indicator to calculate the net current assets, as a representative of the company's financing capacity [4].

This balance sheet model regulated by the Romanian norm setters leaves no room for professional judgment, being more easily controlled by the tax authority, as its privileged user of accounting information.

#### **4. Profit and loss account**

In the specialized literature we find different opinions on the advantages or disadvantages of each method of presentation of the profit and loss account. Some believe that the list format of the profit and loss account, with the presentation on functions of income and expenditure, reveals the result generated by each type of business performed by a company. Other opinions consider that the presentation of the profit and loss account after the economic nature of expenditure and revenue is the one responding to an objective criterion, opposed to the delimitation of expenditure by functions of the company, considered as a subjective presentation, explained by the delimitation of the functions of the enterprise [2].

The presentation of the profit and loss accounts according to the nature of income and expenses is usually found in the countries with a dualist accounting system, characterized by the disconnection, at various degrees of the financial accounting from the management accounting. This form of presentation allows determining the added value to the level of the company, explaining the way it divides in between the creation of

this value and the provision of information necessary for national accounts [1].

#### **5. In the vision of the Romanian norm setters**

Following the research conducted, we note that the Romanian accounting reform in its first stage resulted in the profit and loss account in the list format and a structure of expenses by nature. This model was inspired by Directive IV, but unlike it, the tax profit was not confined on the two categories of results (ordinary and extraordinary), but it was calculated and globally highlighted and the stock variation was present in the structure of operating income [6].

The second stage of the reform, carried out under British counseling, was marked by the application of international accounting standards. The norm setters in Romania have chosen the classification of operating expenses by nature, but they do require the presentation of an explanatory note on the classification by purpose, in order to meet the requirements of standard IAS 1 - The Presentation of Financial Statements.

We can say that although it approaches the norm IAS 1 structure, the layout of the profit and loss account is much more in agreement with the Directive IV. However, the model promoted has also included elements of international accounting practice, by moving from the classification current - exceptional to the classification ordinary - extraordinary.

#### **6. The Cash Flows Statement**

As previously stated, the balance sheet shows the balance of cash and cash equivalents of the company at the beginning and at the end of the financial year so that it can be specified whether their values have increased or decreased during the period. This does not allow finding the cause of variation in the balances of cash and cash equivalents during the year [2].

On the other hand, the profit and loss account provides information on the income, the expenses and the results of different activities, the sources and the uses of cash and cash equivalents, but this financial situation does not explain the causes of these variations. Thus, it appears the need for

financial statements (*The cash flow statement*) having such flows, as to show the origin of the sources of liquidities and how they have been used, explaining the causes of their variation.

Bernard Colasse defines the Treasury as being *what remains from the steady resources after being financed the assets and the financing need related to the current activity or the need for floating capital* and warns that this notion of treasury *should not be confused, as in everyday language with that of liquidities* [3].

Regarding the classification of cash receipts and payments, the American regulation, as well as the international one, retains their distinction in the operating, investing and financing activities. Also for determining the cash flows from the operating activity, it can be used the direct or indirect method, but whatever the means, the cash flow statement drawing involves the transformation of the information from the profit and loss account. Thus, the direct method concerns the gross receipts and payments and the indirect method concerns the adjustments required to convert the net income in cash flow from the operating activity [5].

Therefore, companies that choose the direct method must submit, in a separate document, a reconciliation between the net income (net result) and the net cash flow from the operating activity in order to provide information on the operating net effects of the transactions and other events affecting the net income and the operating cash flow in different periods of time.

In the international vision, IASB presents the issue of the cash flow statement by IAS 7 standard - *The Cash Flow Statement*, revised, that followed most of the rules of the FASB standards. The objective of IAS 7 standard is to draw the preparation, presentation and disclosure policies, related to this financial situation that aim to provide information to users on the basis of evaluation of the ability of the company to generate cash and cash equivalents as well as covering the needs of the company to use these cash flows [3].

As previously noted in the US legislation, the flows of cash receipts and payments are classified as operating, investment and financing activities. In terms of determining

the cash flows from the operating activity the international regulation also remembers two methods: direct or indirect. Standard IAS 7 recommends presenting the cash flows associated to the operating activities using the direct method, whereby the information provided refers to receipts and payments in their gross quantities.

Although IAS 7 Standard encourages the use of the direct method, mainly to satisfy the information need of the investors (that may proceed to the estimation of dividends that could be collected in future years), many companies prefer to use the indirect method due to its correspondence with the accrual accounting and its more *discreet* character especially when publishing this situation using the direct method would not be an advantage for the image of the entity. A notable issue in our opinion, is the fact that some transactions may include cash flows that are classified in several activities. For example, in the case of a loan repayment through cash outflows, the payment refers both to interest, that can be classified as operating activities and to borrowed capital, which can be classified both in operating and financing activities [6].

Currently the cash flow statement is regulated in terms of form and content by OMFP 1802/2014. The Romanian norm setters, in the reglementation of this financial situation, refer to the applicability of Standard IAS 7 - *The cash flow statement*.

## 7. Conclusions

In the specialized literature and in the various accounting systems, the financial statements are found under several names: annual accounts, accounting synthesis documents, annual financial report. Mainly, these offer the same concept, but there are some differences, especially in terms of the composition of these set of financial statements. The financial statements from different referentials present some differences generated by the diversity of legal, economic and social environments, and also by the different needs of the users, determined by the specific of national requirements.

From the comparative study (FASB - IASB - European Directives, Romania) there can be drawn the following conclusions:

- there are still many differences between the Directive and the IFRS, even after the European accounting harmonization and the adoption of IFRS for the listed companies. The differences exist for both the format of the financial statements (covered in detail in Directive IV, but barely mentioned in IFRS) and for the accounting principles (covered in detail by IFRS, but very little and selective in the Directives);

- there is no unitary opinion on the content of the financial statements;

- there is no uniformity in the definition and recognition of the elements of the financial statements;

certain accounting principles distort the economic, financial reality, or they are insufficient for developments specific to the financial analysis or for the evaluation of assets and businesses. It is mainly about the principle of prudence that combined with the historical cost evaluation leads to a systemic undervaluation and to an overvaluation of liabilities. Thus, it offers a pessimistic view on the financial position of the company.

- the variety of presentation means of the profit and loss account generates difficulties in the analysis of the financial performance of companies due to the differences in the interpretation of the performance and of the purpose of this financial situation to meet the needs of analysis and interpretation of the entity's financial performance;

- the elements of the financial statements can have a rigid or flexible nature: in the first case, the elements are predefined limiting professional judgment, while the flexible model can hide certain tendencies of image manipulation concerning the entity's financial position and performance.

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# Evolutions of the Concentration Degree in the Romanian Banking System

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## Abstract

*The banking market has undergone significant changes in recent years. The determinants of these changes were customer demand, matching the supply of banking products and services to specific market economy, penetration of foreign banks that have come to dominate our banking system.*

*The changes seem to have accentuated in the past two years, under the impact of the economic and financial crisis. Increasing of the banking concentration process in Romania was predictable, given that early forms had appeared even before the crisis, but also due to the large number of banks existing in Romania.*

*The crisis amplified the process as a result of the difficulties of many banking actors, the appearance of losses due to overdue loans and last but not least the helplessness of shareholders, unable to provide new capital for the survival of Romanian banks*

**Key words:** bank, concentration, mergers, acquisitions

**J.E.L. classification:** G21

## 1. Introduction

In the contemporary market economy banks have a significant role, their strategy having great influence on macroeconomy and micro economy of all countries. Under the impact of scientific and technological progress, especially in electronics, banking operations technique diversified and, especially, has been modernized so that comparisons with the practices of the past century can not be done.

But Romanian bank generally seems more fragile because, under the conditions of permanent transition of the Romanian economy in the last quarter century and

recession, exceeded in terms of statistics, but that seems to go on forever in the eyes of the common citizen, our banks:

- succeeded, after glorious years when they raced after incredible profits, to report for "six years cumulative losses of 8 billion lei and in two years gains of 0.9 billion lei, respectively a net loss of 7.1 billion lei, as announced by of first deputy governor Florin Georgescu ,at the beginning of this year, recalling that only last year the total loss was 4.5 billion lei "[1];
- employees have increased in number, compared to 1990, reaching a maximum 72.000 employees, only to reduce to 53.000 during the crisis, which may mean poorer services;
- those several million happy romanians to whom the bank approved a loan in euros, dollars, Swiss francs, for home, car, or any other of their dreams became million of unhappy romanians because of their decreasing revenues which could no longer afford payment of the bank rate or hapless by the depreciation of the leu currency in which they took their wages and hence a more than visible aversion in the eyes of customers;
- bank failures in the late 90s and early 2000s were replaced by merges or takeovers, some already announced, others that will surely be announced in the future. Here, I think, is the key to resolving many problems in our banking system.

## 2. Highlights of the Romanian banking system

Here's how the Romanian banking system currently stands [2], [3]:

- Romania currently has 40 banks, of which 30 banks Romanian legal entities, 9 branches of foreign banks and network of cooperative bank (CREDITCOOP);
- State Banks (with whole capital - CEC Bank and Eximbank) hold about 8.5% of

the market, which means that private banks have 91.5% of the banking market;

- Foreign-capital banks dominate the market accounting for 81% of the banking sector;
- Romanian private capital, holds somewhere around 10% of the market (Banca Transilvania, BC Carpatica, BC Rail, ATE Bank).

Romanian banks are mostly universal banks, although there are a few buds of a slight specialization: two savings and loan banks (Raiffeisen Housing Bank, BCR - Housing Bank), one specializes in car loans (Porsche Bank), some that claim to be active in the SME sector (the best known example is Banca Transilvania), a virtual bank (Libra Internet Bank - actually about two-thirds virtual and one-third traditional, as shown in the latest report of the bank).

Entered a while ago to the "zodiac sign" of universality and deregulation, Romanian banks seem to be in a fragile position not only due to factors noted in the first paragraph, but also as a result of factors such as:

- they have increasingly more competitors so that they lose their traditional monopoly over certain operations;
- customers seem increasingly unhappy with the results of investments, which is close to zero or in some countries even became negative;
- customers seem increasingly unhappy with the costs associated with bank loans, which seem increasingly higher interest being doubled by numerous commissions;
- customers seem increasingly dissatisfied because there almost is no banking service or product that is not commissioned and charged by the bank;
- but customers can be happy because they can quickly migrate to other non-bank intermediaries or by other financial markets.

Table 1. Market shares of banks in Romania at 1 January 2014

Credit institution	Net assets	
	billion lei	%
Romanian majority banks	36,6	10,0
State majority banks	30,8	8,4
CEC Bank	26,9	7,4
Eximbank	3,9	1,0
Private majority banks	5,8	1,6
Banca Comercială Carpatica	4,7	1,3
Libra Internet Bank	0,8	0,2
Banca Feroviara	0,3	0,1

Credit institution	Net assets	
	billion lei	%
Foreign majority banks:	296,6	81,1
Banca Comercială Română	70,5	19,3
BRD Société Générale	47,9	13,1
Banca Transilvania	29,6	8,1
UniCredit Ţiriac Bank	25,1	6,9
Raiffeisen Bank	23,6	6,5
Alpha Bank România	16,5	4,5
Volksbank România	16,5	4,5
Bancpost	12,2	3,3
Piraeus Bank România	7,8	2,1
Banca Românească	6,9	1,9
Garanti Bank	6,7	1,8
Intesa SanPaolo	5,1	1,4
Credit Europe Bank	5,0	1,4
RBS Bank România	4,8	1,3
OTP Bank România	4,6	1,3
Marfin Bank România	2,6	0,7
Banca Millennium	2,6	0,7
BCR Banca pt. Locuințe	1,5	0,4
Credit Agricole Bank	1,3	0,4
ATE Bank	1,3	0,3
ProCredit Bank	1,2	0,3
Bank Leumi România	1,2	0,3
Nextebank	1,0	0,3
Romanian Internat. Bank	0,4	0,1
Porsche Bank Romania	0,4	0,1
Raiffeisen Housing Bank.	0,3	0,1
Total commercial banks	333,2	91,1
Foreign branches	31,6	8,7
ING Bank N.V.	16,4	4,5
CITI Bank Europe	6,5	1,8
Banca Italo-Romena	4,5	1,2
Bank of Cyprus	2,4	0,7
BLOM Bank France	0,7	0,2
Caixabank	0,5	0,2
Fortis Bank	0,5	0,1
Finicredito	0,0	0,0
Total foreign banks	364,8	99,8
Creditcoop	0,9	0,2
Total credit institutions	365,7	100

Source: BNR, Annual report 2014

If we consider that at the EU-28 level in 2013, the number of credit institutions was 7.726, the number of Romanian credit institutions, 40, does not seem high. However, if we analyze the market shares of credit institutions from Romania (Table 1), we see that two of these have market shares above 10%, 4 have market shares of between 5 and 10% ,6 have market shares between 2 and 5%, 10 between 1 and 2%, and the remaining 18

credit institutions have market shares of below 1%. It is clear that the latter almost do not matter the Romanian economy and deterioration in bank profitability in the years of crisis has affected these small banks, for many of them the future does not sound good.

### 3. Concentration degree

Analysis of the concentration degree of the Romanian banking market (Tables 1 and 2) leads to the conclusion that this is a concentrated one, the top five banks accounting for about 54% of the banking system (BCR, BRD, BT, Unicredit, CECBank). When referring to the first 10 banks, then they would hold almost 80% of the market (to the five mentioned above adding Raiffeisen Bank, ING, Alpha Bank, Volksbank, Bancpost), and if we consider the first fifteen banks, then they comprise 90% of the Romanian banking market (to the ten above we would add: Piraeus Bank, Garanti Bank, Romanian Bank, Citi Bank, Credit Europe Bank). Results that the other 25 banks together have about 10% of the market share, are pretty nonexistent, much of the public not knowing about their existence.

Table 2. Concentration degree in the Romanian banking system after net assets

Year	% total net assets of the Romanian banking system of:		
	first 5 banks	first 10 banks	first 15 banks
2001	61	77	83
2002	65	82	89
2004	66	83	90
2006	60	81	92
2007	56	79	90
2008	54	78	90
2009	52	78	89
.2010	53	78	88
2011	55	78	88
2012	55	78	87
2013	54	78	88
2014 July	54	-	-

Source: author's calculations on the data from annual reports of the NBR

The dynamic analysis of the concentration degree of the Romanian banking system (Table 2) in the last 14 years indicates:

- a decrease in the degree of concentration among top 5 players in Banking;
- a relative stability of the degree of

concentration among the top 10 banks;

- an increase in the degree of concentration among the first 15 credit institutions.

The conclusion is the same, the position on the market of small banks (banks remaining outside the first 15, especially those with quotas under 1%) have no chance against large and medium banks, which, as a whole, its strengthening the position and will damage market shares of marginal banks.

Table 3. Concentration degree of the banking assets in the European Union

Country	Market share of top5 banks
Estonia	89,59
Lithuania	83,62
Netherlands	82,07
Grerce	79,47
Slovakia	72,03
Portugal	70,72
Latvia	64,05
Czech Rep.	61,48
EU average	60,78
Slovenia	58,35
Hungary	54,00
Romania	53,90
Spain	51,40
Bulgaria	50,37
France	44,62
Poland	44,39
Italy	39,67
Austria	36,49
Germany	33,00

Source: National Bank, Financial Stability Report 2014

It should also be noted that if you compare our country's position with other EU members we see that we stand below average, in relation to the top five banks on the market, with countries with banking systems dominated by a few large banking players.

### 4. Mergers and acquisitions in recent years in the Romanian banking system

The process of mergers and acquisitions on the Romanian banking market started before the trigger of the 2008 financial crisis (for instance, UniCredit Tiriac Bank emerged through HVB Bank Romania and Banca Comercială Ion Tiriac, UniCredit Romania, a process started in 2005 and ended in 2007 or the takeover HVB Housing Bank by Raiffeisen Housing Bank, a process which took place in 2008), but was slowed by banking expansion in

2007/2008, and then the financial crisis, increased bad loans and the overcrowding of losses in banks' balance sheets.

The process of bank mergers and acquisitions on the Romanian market began as a natural phenomenon of post crisis concentration, in 2013, through five such processes. Thus, Citi Bank, RBS Romania, Romanian International Bank, ATE Bank and Bank of Cyprus were the subject of some mergers and acquisitions:

- Citi Bank Romania sold its retail portfolio to Raiffeisen Bank, leaving it with only the corporate segment, which will mean a reduction in market share from approximately 1.8% to less than half;
- RBS Romania was taken over by Unicredit Tiriatic Bank, the market share of the latter increasing from 6.9% in 2012 to 7.6% in 2013;
- Romanian International Bank was taken over by the Polish banking group, Getin Holding, without the impact on the market share of the bank to change, the bank remained at a level of 0.1-0.2% of the market, wanting to reach the platoon of important Banking players from Romania as Idea Bank;
- ATE Bank Romania, which had as a shareholder the Greek bank Piraeus Bank during the crisis, was taken over by Romanian businessman Dorin Umbrurescu, suggestions were made to change its name in the Romanian Bank for Credit and Investments, but without this to result in a strengthening of the market position of the credit institution, NBR statistics indicating even a decrease in market share from 0.3% in 2012 to 0.1% in 2013;
- Bank of Cyprus Romania, really a branch (rather real estate status, mainly because its assets were investments in about 18 real estate speculative investments), it had to find buyers or draw its shutters, because the parent bank Cyprus (Laiki Bank of Cyprus) had to go into liquidation. For Romanian branch the resolve was the transfer of deposits to another bank in Cyprus, Marfin Bank (which took about a third of total deposits of BCR, out of a total of 245 million) and the sale of assets placed in real estate portfolios (such as the Hotel Marriott Bucharest actions to Strabag Austria for €

35 million, action that in the records was only worth 1 million euro etc). The effect of these transactions is a half of the market share (from 0.7% in 2012 to 0.4% a year later).

But 2014 was quite rich in movements on the banking market. Here are some of them.

- Hungarian MKB Bank, part of German group BayernLB, sold Nextebank Romanian subsidiary to Emerging Europe Accession Fund (EEAF) Nextebank having a market share of only 0.2%. To be noted that EEAF includes EBRD among its institutional investors and is the third private equity fund run by Axxess Capital. Although the transaction concluded right at the turn of 2013 to 2014, it did not seem to have a notable impact on the Romanian market, however, during 2014, the new bank has made some movements in the Romanian financial banking market. Thus, by the end of 2014, Axxess Capital, the administrator which controls Nextebank, approved a takeover by the Bank of an IFN held for some time, and all in the same period (December 2014) made a firm takeover bid for Banca Carpatica, movement which if materialized, will take Nextebank among the first twenty banks in Romania. Caixa Bank Romania, subsidiary of the Spanish banking group La Caixa has closed its unit in our country without producing any effect, following a negligible market share of 0.1-0.2%.
- Italo Romena Bank merged with Veneto Bank, the first becoming a territorial branch for the second, at the level of market position this meaning about 1.2-1.3% of the Romanian banking market.
- Millennium Bank Romania, owned by Portuguese market leader, Banco Comercial Português, was bought by OTP Bank Romania (part of the Hungarian group OTP, the former Hungarian CEC) through a transaction of 39 million euros, which means an increase of the bank's market position of the Hungarian shareholding from 1.3% to above 2%, which means entering the top 15 players from the banking actors in Romania). Finally, the most important acquisition of the Romanian banking market seems to be the taking of Volksbank by Banca Transilvania, transaction following which

Banca Transilvania increases its market share from 9% to 13% and, according to some analysts of the Romanian banking market, is number two in total bank assets exceeding BRD (46.5 billion lei, resulting from 34 billion lei, assets of Banca Transilvania and 12.5 billion lei assets of Volksbank Romania, compared to 43.5 billion lei, assets of the Romanian Development Bank) [4].

- Also by the end of 2014 (November) Blidar Valer, the main shareholder of Railway Commercial Bank, a bank for 0.1% of the market announced advanced negotiations to purchase another Romanian bank. The information was confirmed a few days later by Nicolae Cinteza, Supervisory Director of NBR, who spoke about discussions for a possible merge of the two Romanian banks, one with a market share of over 1%, and another with a share of under 1% [5].

It should also be noted that the trend of rationalization of credit institutions is a feature throughout the European Union. Thus, over the last ten years the number of credit institutions in the EU-28 fell by approximately 1,500 institutions, reaching 7,726 in 2013 [6]. In the European Banking Sector Facts & Figures 2014 it is also mentioned that financial consolidation slowed slightly last year (the decline of 2.1% in 2013, compared to 2.5% a year earlier). Countries that have recorded the largest contraction in absolute terms were Cyprus (-36 units) Germany (-27) and Spain (-24).

## 5. Conclusions

Economic and financial crisis has wiped much of the banks' business, customers have become more apathetic or scarce, higher risks, losses continue to agglomerate balance sheets, causes which indicate some mutations on the Romanian banking market, namely a concentration process, inherent in conditions of a prolonged recession or quite troubled economic times with low rates of economic growth. That is, a series of mergers and acquisitions in the Romanian banking system.

Begun before the start of the 2008 financial crisis, slowed by the banking expansion from 2007 to 2008, and then by the financial crisis, the process of merger and acquisitions seems to increase in the last two

years. Thus, in 2013 there were five such processes, so that in 2014, the phenomenon continues with the other five, when two takeovers took place with incidence at the level of the top ten players in the Romanian banking system (the taking of Volksbank Romania by Transylvania Bank, respectively the takeover of Millenium Bank by OTP Bank Romania).

The process of bank mergers and acquisitions in Romania should not be seen as one with negative effects on competition because there are enough players in the banking market. Rather, it has a "sanitary" effect, leading to the elimination of potential bank failures, which can be generated by small banks, can better absorb losses on banks' balance sheets. Also, by increasing the size of the merged banks they can construct stronger banking structures that support customers through products offered, can innovate by introducing competitive services, gainful by the number of customers that purchase them and situations where the bank's objective is speculating transient sources of profit can be avoided.

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## The Actuals of Crowdfunding

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### Abstract

*The present paper reveals actual facts and challenges of a method of funding relatively new – crowdfunding. Considering the regulations, the concerns, the people’s view and review of the subject, the paper emphasize the present estate of crowdfunding in general and crowdfunding platforms, using the evaluation of cofounders of some crowdfunding platforms. Also, the effects of funds gathering, over the general public, as the crowd and the beneficiary is analyzed. As a conclusion the non-profit phrase and the new update regulation will do much good to the beneficiary of crowdfunding.*

**Key words:** crowdfunding, crowdsourcing, funding, non-profit

**J.E.L. classification:** P45

### 1. Introduction

On the [www.investopedia.com](http://www.investopedia.com) *Crowdfunding* is defined as follows: “The use of small amounts of capital from a large number of individuals to finance a new business venture. Crowdfunding makes use of the easy accessibility of vast networks of friends, family and colleagues through social media websites like Facebook, Twitter and LinkedIn to get the word out about a new business and attract investors. Crowdfunding has the potential to increase entrepreneurship by expanding the pool of investors from whom funds can be raised beyond the traditional circle of owners, relatives and venture capitalists.” [1]

Crowdsourcing, is the general term that includes crowdfunding, was introduced as a

technique of outsourcing for new solutions needed to corporate improvement by accessing the concepts of the ‘crowd’. Crowdsourcing count on open innovation using the intellect of the collective and was first defined as “the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and to expand the markets for external use.” [2]

*Crowdfunding* uses the ‘crowd’, but accentuates on the skill to use a large quantity of people to generate capital needed to fund a diversity of projects/organizations/businesses. From 2008, when the innovation of general web-based crowdfunding began, the crowdfunding platforms (CoP) have grown from the little-scale to huge enterprises with unbelievable annual growth. Thus transform the CoP from a niche idea to a typical funding solution.

Generally, CoP offer support for financial funding in exchange for a recompense offered by a requester [5]. Explicitly, CoP must permit for [4]:

- numerous individuals to offer financial support to develop a SINGLE new project;
- individuals to raise and obtain funds between the presentation of an idea for a project and end of that project;
- to volunteer offer financial contributions.

### 2. Crowdfunding challenges

Because of economic and financial estate, the non-profit sector must assign an important portion of its available resources to fundraising enterprises to continue operations. Thus, a considerable amounts of time and effort are required to court donors,

secure grants and organize fundraising events. [3]

In the United States, crowdfunding is limited by regulations about who is allowed to fund a new business and the amount of resources they are allowed to contribute. These regulations are theoretically help to protect simple and/or non-wealthy investors from investing and risking too much of their savings. Because of the failing of so many new projects and business, the risk of losing the investors main contribution meet a high risk. [1][8]

In simple words the crowdfunding campaigns are funded by the general public. Usually, most successful projects receive about 25-40% of their income from their first, second and third degree of relations: friends, family, work acquaintances, or anyone (including their second and third degree connections) that the project entrepreneur is connected to. Once a project have some success, new unrelated consumers join to support campaigns that they believe in. A successful crowdfunding campaign is not so easy as submitting an idea and waiting for it to go viral. The immediate success can happen to many known brands, while the vast majority of projects will need effort on the part of the project creator.

It looks like there are three main reasons why public not familiarized with a project or business would want to support it [7]:

1. They have a link to a greater purpose of the campaign;
2. They have a link a material aspect of the campaign;
3. They know a creative display of the campaign's presentation.

So using social media, creating a distribution lists for emailing, contacting local media, are all necessary stages for achieving the goal of the project. [7]

### 3. Crowdfunding platforms

There are numerous CoP where consumers can safely ask for or donate money. While each site offers their unique conditions, the general concept is the same. Project creators can generate a profile containing an introduction to their project, a short video, a list of rewards and some images to elaborate. The idea of “it's not what you do, but why you do it,” it is a

winner. Each project has an amount of money needed and a certain number of days. Once the project starts, each day will be counted down and the money gathered will be showed to public see. [7]

What to search in a crowdfunding sites we want to use? [9]

For choosing a crowdfunding platform, one should consider some aspects. One major aspects is if the service specializes in a specific industry or limits the reasons for funding. Another aspect is the conditions that the funds are received, as some services are all-or-nothing (meaning: you have to raise 100% of your goal must be raised for the collection of money) while others CoP allow you to have any funds you raise (but higher fees could be paid in those cases). [9]

The 2015 best 10 crowdfunding sites considering the sum of money raised and the notoriety of sites are [9]:

1. **Experiment** - a niche personal crowdfunding site, is concentrating on the scientific community (it is created by scientists for scientists). You can raise funds for a variety of projects as biology, physics, political or computer science. The platform imposed to gather all the needed amount and certain fees are applied.
2. Using **FundAnything**, you can find funding for personal reasons, including medical bills or vacations. There is no restriction or specification on the reason for your campaign. Funding mainly comes from friends and family or community members attracted in helping you reach your objective. You keep all the funds you raise even if you do not reach your aim.
3. **FunderHut** consider individuals, small businesses, non-profits and communities projects that can be crowdfunded. You can choose from fixed campaigns - where you must raise 100% of your funding or cannot take any money or for variable campaigns - where you keep the money you gather even if you don't achieve the amount you need. Another advantage is that the site offer fundraising consulting services, but for an additional fee.
4. **Indiegogo** also offers personal crowdfunding to help funding projects to make the project real. The theme of the

campaign can be media and art projects, technology, health, and environment or religious ideas.

5. For artists seeking funding for any creative project, **Kickstarter** is a solid choice. Subjects include such various things as art, food, theater and techie gadgets. Because this crowdfunding site concentrates on real projects, you must have a clear idea of what you want to do and be prepared to share and present your results.
6. **Patreon** presents a personal crowdfunding platform that help people to donate a constantly monthly fee to you in exchange for access to your content and any welfares you might give. It is mostly for artists of all kinds, from photographers to cartoonists to YouTubers.
7. **PledgeMusic** is designed mainly for musicians. It helps you fund your next album and also it connects you with your fans through special offers you provide in order to encourages fans to share your work with the world.
8. **Pozible** is an helping individuals international crowdfunding website for non-profits fund projects and some kind of startups. It accepts finding requests in several currencies and formats (including bitcoin). Also, has a graduated fee scale. Some disadvantages come from the rule that projects must reach their full funding goal or the money are not moved to the requester.
9. **RocketHub** crowdfunding platform with no restrictions about the reason you need the funds for. With this site, you keep everything you raise.
10. **Tilt** is a platform to collect funds for many number of reasons. Campaigns can include raising funds for a surprise birthday party and fixing potholes in a local neighborhood. Tilt is one of platforms that does not charge a fee for gathering funds, instead credit card processing fees apply.

#### 4. Methods of analysis

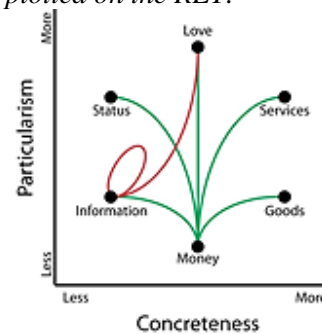
Researchers elaborate, develop or use methods to analyze the functions, implications and effects of crowd funding.

The first experimental study on the

crowdfunding business was elaborated by Schweinbacher et al. (2010) and covered the value of non-profit crowdfunding. The conclusion were that non-profit projects usually attract more funding than common for-profit projects. In most cases, people are more concerned with funding an idea with which they agree rather than receiving a return on their investment. This suggests that people view general crowdfunding as a donation based enterprise and might explain why non-profits do significantly better. The conclusion assesses that non-profits generally do better than other alternatives, yet the conclusion could be pushed farther in terms of why non-profits stand to do better on CoP.[3]

Greenberg et all in 2013 [4] use Resource Exchange Theory (RET) to comprehend the exchange of resources and the mechanisms to ease this exchange. They find out that CoP support the exchange of all 6 resources described by RET: money, love, information, status, goods, and services and display a variety of structures to help exchange. Also they exposed four roles in online crowdfunding: requestors, respondents, members and general public. (Table 1 and Figure 1).

Figure 1. Resource exchange on Indi-eGoGo, plotted on the RET.



Source: Greenberg et all [4]

The red lines signify the exchanges between requestors and the ‘crowd’ and the green lines shows specific exchanges to a conection of respondents and requestors.

Read A. (2013) uses an empirical model that “seeks to explain what causes increases in the dependent variable for total funds raised per project by individual project characteristics. The variables were put into the ordinary least squares model to determine their validity and ability to explain changes



in the function (1). The variables that are expected to make a noticeable impact on the overall funding of a project are the following: the age of the creator group backing the launch of the project (AGE), whether the project is a startup that is using crowdfunding to generate initial funds (START), whether it was a non-profit organization (NON), the number of project backers, and whether a reward was offered (REW)” [3]

$$\text{RAISED} = f(\text{AGE}, \text{START}, \text{NON}, \text{BACKERS}, \text{REW}) \quad (1)$$

Table 1. Results of the description of current Crowdfunding platforms

Descriptor	Sub-Descriptor	Representative Examples
1. Mechanisms	Mediated	Kickstarter, Sponsume, Kiva
	Unmediated	Independent, “The Cosmonaut”
	Hybrid	Passing the hat, Church offering
2. Directness of ex-change	Direct	Kickstarter, IndieGoGo, Kiva
	Indirect	“The Cosmonaut,” Requests for donations
	Inaccessible	MyC4
3. Individual Roles on Platforms	Requestor	Kickstarter, Kiva, CircleUp
	Respondent	Kickstarter, Kiva, CircleUp
	Community Member	All Platforms
	General Public	All Platforms
4. Requestor re-sources received	Money	All Platforms
	Information	Kickstarter, RocketHub
	Love	Kickstarter, RocketHub
5. Respondent re-sources received	Status	IndieGoGo
	Love	“The Cosmonaut”, PetriDish
	Money	CircleUp, MyC4, Zidisha
	Goods	Kickstarter, IndieGoGo
	Services	Kickstarter, RocketHub
6. Public & Member Resources Received	Information	“The Cosmonaut,” MyC4, Kickstarter, PetriDish

Source: Greenberg et all [4]

The model encountered a number of challenges that needed to be revised before a final equation was developed. As occurs on many cross-sectional data sets, the occurrence of heteroskedasticity was a

problem. The amendment resulted in the lessening in the significance of a number of variables. However, the model seems well-suited to causes of crowdfunding success and can be used with assurance. [3]

## 5. Conclusion

We can conclude with Prive (2012) who says that crowdfunding has demonstrate as a great benefit in sourcing potential customers and rising an audience. An additional advantage to crowdfunding is its economical support. In addition to help small businesses with needed financial resources, it encouraging entrepreneurs to continue creating even time of slow economic growth.

Also the future of crowdfunding is described by Barnett that is considering the birth of a new class of investors, considering that now everybody have the occasion to invest in what could be the next great feature film, startup, consumer product, or clean technology venture. This new class of will grow to become influential, powerful, and an important voices. Also, they will confirm new organizations and projects, they will help their early growth, and then in the next stages the important investors will have good motive to implicate. [8]

In conclusion, crowdfunding is a great advantage to businesses and entrepreneurs, generating much needed income and growing the customer base. [7]

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## The Impact of the Exchange Rate Evolution on Romanian Exports

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### Abstract

*The scope of this paper is to study the influence of the currency phenomenon on Romanian exports between 2006 - 2014. The method that we propose in this study is the analysis of an econometric model, where we approach the intensity of the relationship between the currency phenomenon, expressed through the euro/ron exchange rate and the Romanian export volume.*

*The research results have lead to the validation of hypotheses and they show that there is indeed a relationship between the explanatory variable and the dependent variable. The analysis suggests the vulnerability of the Romanian economic environment, the behavioral tendencies of which are difficult to identify, due to the fact that the business sector has suffered substantial structural changes in the last years.*

*The originality of this paper resides in the fact that it shapes two important variables at a national level, in today’s macroeconomic context.*

**Key words:** econometric model, export, Exchange rate

**J.E.L Classification.:** C50; F31; F40.

### 1. Introduction

Large exchange rate fluctuations since 1970’s have generated increased interest in investigating the effects of exchange rate movements on international trade. In a more and more globalized world, the importance of export activity increased. Export depends on a large variety of factors that can have a positive or negative effect on it. Some consider that exchange rates are a factor that can influence the dynamics of exports.

David Greenaway et al. (2008) investigated the responsiveness of exports of

UK firms to different measures of exchange rate uncertainty [1]. Pal Boug (2010) studied exchange rate volatility and parts of Norwegian exports within a standard demand-type model relying on a cointegrated Vector Autoregression (VAR) approach [2].

Another author [3] investigated the presence of asymmetries in the response of export prices to exchange rate movements for a broad set of European Union exporter countries and highly disaggregated product categories.

Some authors point out the fact that exchange rates can be used to stimulate export. Therefore, a country can devalue its currency in order to stimulate exports or to dampen imports [4].

Currency and its evolution in relation with other currencies are important for both: *internal stability* of the national economy and *external stability* (in terms of sustainable current account deficit). Furthermore, inflation and nominal exchange rate are interdependent elements which reflect the evolution of a balanced and sustainable national economy.

The relationship between exchange rate and exports was analyzed by a numerous authors and, in particular, was analyzed the effect of the devaluation of exchange rate over the exports. Bernard and Jensen (2004) have focused on the economy of US for the period 1987-1992 and they have found that the variability of exchange rate was an important determinant of export increases [5].

Some romanian authors presented different points of view on the topic of the correlation between exchange rates and export. For the Romanian case, Gherman (2013) indicated that depreciation of the Romanian currency will have a positive effect on exports and will register an increase [6]. Boroaca (2014) sustained that when domestic currency is stronger, exporters lose their commercial competitive advantage,

because their products will cost too much for abroad clients. On the other hand, a stronger domestic currency of a country may stimulate imports in that country: importers can bring cheaper products from abroad [7]. Roman A. have analysed the long-run relationship among the real exchange rate of the Romanian leu against euro, capital flows and the relative productivity [8].

A stable exchange rate of the national currency leads to an increase in exports with positive implications on the process of real convergence. Socol & Drigă (2013) studied some disparate indicators which can suggest the real convergence degree among non-ERM II countries from Central and Eastern Europe including intra and extra-EU trade for the group [9].

## 2. Research methodology

This paper investigates the relationship between the currency phenomenon and the export volume, at a macroeconomic level. The main objective of our research is to identify the intensity of the relationship between the currency phenomenon expressed through the euro/ron exchange rate and the volume of exports. In this sense, the concerned issues will be tackled through the help of quantitative indicators.

This paper focuses on the relationship between the currency phenomenon and the export volume and it seeks to draw attention on the current status of the two factors in Romania and on the necessity of their strategic approach in correlation with the EU strategy for economic growth “Europe 2020”.

In terms of theoretical research, this study is based on a deductive approach centered on the definition and evolution of indicators.

On a practical research level, the paper seeks to perform a quantitative study of the relationship between the two indicators involved and to study the value created by the currency phenomenon.

Thus, we will examine if there is a correlation between the euro/ron exchange rate and the export volume. At the same time, we wish to analyze the influence of the exchange rate on the export volume. The method that we propose in order to answer the researched questions is the analysis of an econometric model.

In order to accomplish our objectives, we

will develop a regression model with the purpose of establishing whether the independent variable – the euro/ron exchange rate – influences the export volume.

The results obtained following the tests and the validation of the hypothesis envisaged a synthesis of the ideas found in the specialized literature, and the analysis used to test and validate the hypotheses was a quantitative analysis.

In this study, in order to accomplish our objectives we made use of several techniques specific to social and human sciences, such as: observation; document analysis; document study and comparative analysis.

The data was taken from the website of the National Statistics Institute, as well as from the monthly newsletters of the National Bank of Romania. The gathered data contains the values recorded by the two indicators in Romania in the period 2006-2014.

## 3. The econometric model and data analysis. Objectives and the definition of variables.

This econometric study was aimed at:

1. Establishing the relationship between the dependent variable: the export volume and the independent variable: the euro/ron exchange rate.
2. Setting up a linear econometric model to analyze to what extent the independent variable influences the evolution of the export volume.
3. Validating results through specific testing.
4. Explaining the effect of the chosen independent variable on the dependent variable.

The scope of this study is to determine whether and to what extent the euro/ron exchange rate can be considered a factor in establishing the export volume in Romania. The notations from the model are as follows:  
EXPORT = export volume  
EURO = euro/ron exchange rate

In order to be able to build a linear regression model we defined the euro/ron exchange rate as a independent variable, while the export volume in Romania was considered a dependent variable.

Thus, the regression model can be transcribed under the following mathematical equation:

$$\text{Export} = a + b \cdot \text{euro/ron exchange rate}$$

where:

Export = the monthly value of exports in Romania

euro/ron exchange rate = the monthly average of the exchange rate for one euro.

From an econometric point of view, the considered model must include the residual component, seen as a representation of the differences which emerge between the determined values from a theoretical standpoint and those measured in real economy.

$$\text{Export} = a + b \cdot \text{euro/ron exchange rate} + u$$

where:

Euro/ron exchange rate → independent variable;

Export → dependent variable;

a, b → regression model parameters;

u → residual variable.

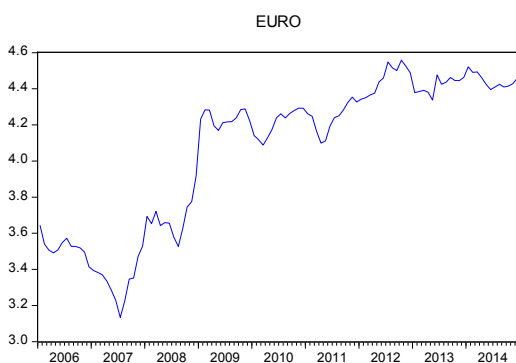
In order to be able to analyze the correlation between the two indicators, we deem necessary, as a first step in this research, to identify several particularities in the evolution of each value considered in the analyzed time interval.

Therefore, we first studied the individual evolution of the two indicators.

The monthly average exchange rate is calculated as a simple arithmetic average of daily exchange rates of the currency market.

The analysis of the evolution of euro/ron exchange rate in the time span 2006-2014 is represented in this graphic:

*Figure 1. The evolution of the euro/ron exchange rate.*



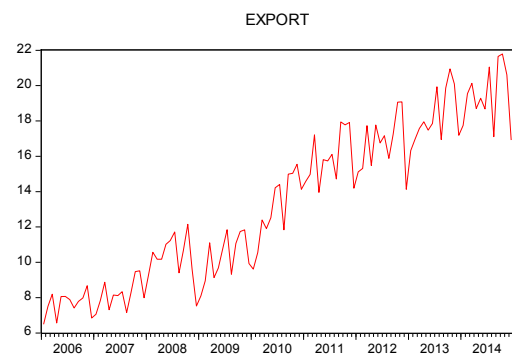
Source: Personal processing of data collected from the National Statistics Institute

As one can observe, from the data analysis in our research as well as the figure presented above, in the considered time span, the evolution of the euro/ron exchange rate recorded a constant growth each year, with the exception of 2007, when the rate recorded a steep drop.

In the analyzed time span, the exchange rate level fluctuates at times, but the overall graphic shows a positive growth.

In order to be able to better observe the evolution of Romanian exports between 2006 and 2014, we set up a graphic which would help us interpret the overall situation and would showcase the export evolution in the analyzed time span.

*Figure 2. The evolution of exports in Romania between 2006-2014.*



Source: Personal processing of data collected from the National Bank of Romania

We notice an overall growth in Romanian exports between 2006 and 2014. Major fluctuations are to be encountered at all times.

With every month, the increase and drop in export levels indicate fairly high modifications.

Even though the oscillations in exports were fairly significant on a month by month rate, if we follow their overall evolution, we conclude that the level of exports increased significantly in 2014, as opposed to the beginning of the referenced period,

#### 4. Results and discussions

Using the Eviews statistical package, we performed a series of statistical tests meant to insure a more correct view on the evolution of the euro/ron exchange rate in the given time span.

The performed tests present the distribution histogram, the mean, the median, minimal and maximal values, the standard deviation, the skewness, the series kurtosis and the Jarque-Bera test.

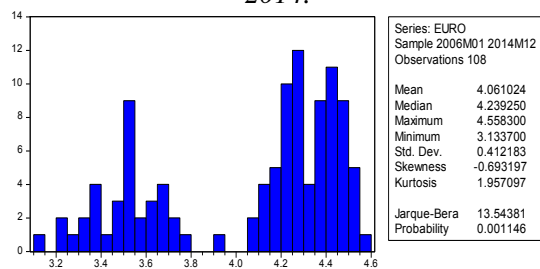
These tests contribute to a more precise understanding of the exchange rate level, its extreme values over the course of each year, as well as the distribution of data.

Due to the fact that exchange rate fluctuations are extremely high, the results of these tests can be intuited.

The computer program will help confirm our suspicions regarding this evolution.

As shown in Figure 3. one can notice that the average value of this euro/ron indicator for the interval 2006-2014 is 4.061024 ron/euro, with a variation ranging from a minimum of 3.1337 ron/euro (recorded in July 2007) and a maximum of 4.5583 ron/euro (recorded in October 2012).

Figure 3. Statistical tests performed on the euro/ron exchange rate between 2006 and 2014.



Source: personal processing of data

The Skewness is different from zero, having a value of -0.693197, which means that the normal distribution is not perfectly symmetrical.

A normal kurtosis distribution is 3, while in our case its value is 1.957097, which is under the level of a normal distribution. When the level is under 3 the distribution is called platykurtosis, and is considered flatter (kurtosis < 3).

Over the course of the analyzed years, we find that the majority of monthly average exchange rates are situated between the minimal values and the average of all the values taken into account.

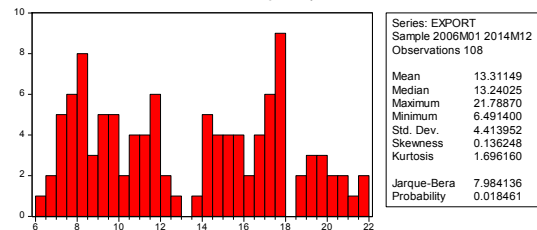
Jarque-Bera tests whether a distribution is normally distributed. This test measures the difference between the Skewness and kurtosis of the analyzed distribution and those of a normal distribution.

After performing statistical tests for each and every indicator, we can conclude that overall both the exchange rate and Romanian exports have increased during 2014 by a significant percentage, as compared to 2006.

We performed statistical testing as well for the evolution of exports for the 2006-2014: the distribution histogram, the mean, the median, minimum and maximum values, the standard deviation, the skewness, kurtosis and the Jarque-Bera test.

These tests can be observed in the following part:

Figure 4. Statistical tests performed on the Romanian export volume between 2006 and 2014.



Source: personal processing of data

As shown in Figure 4, we can notice that the average value of Romanian exports in the given time span 2006-2014 is 13,31149 billion ron, with a variation ranging from a minimum of 6,4914 billion ron (recorded in January 2006) and a maximum of 21,7887 billion ron (recorded in October 2014).

After assessing these values, we can conclude that the minimum exports value was recorded at the beginning of the reference period, the maximum level recorded at the end of this period proving once more what we have found in the graphic illustrating the evolution of Romanian exports in the past few years, meaning the fact that exports have increased considerably every year.

The Skewness is different from zero, having a value of 0.136248 which means that the normal distribution is not perfectly symmetrical.

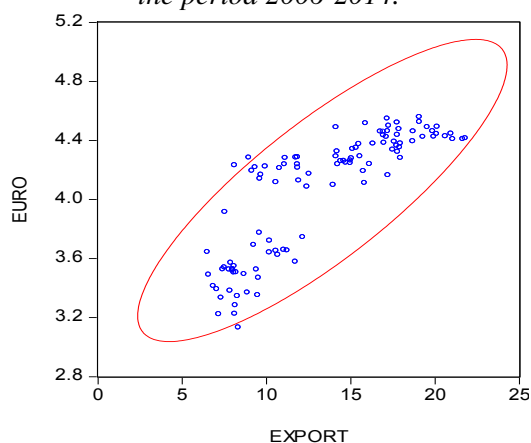
The kurtosis has a value of 1.696163, value under the level of a normal distribution. When this level is under 3 the distribution is called platykurtosis and it is considered flatter (kurtosis < 3), meaning most of the values regarding the exports over the analyzed period of time are between the minimum level and the export average over

the years. Jarque-Bera tests whether a distribution is normally distributed. This test measures the difference between the Skewness and kurtosis of the analyzed distribution and those of a normal distribution.

### 5. Analyzing the impact of the exchange rate evolution on Romanian exports

In order to analyze the influence of the exchange rate on Romanian exports we set up this graphic, which illustrates the visual autocorrelation of the two factors:

Figure 5. The evolution of the euro/ron exchange rate and of Romanian exports for the period 2006-2014.



Source: personal processing of data

As shown in Figure 5, the euro/ron exchange rate is an influence factor for the export level in our country. Regular dispersion of values presents the correlation between the two variables.

The visual analysis of the organization and shape of the point cloud may offer important clues on the relationship between the variables.

Due to the fact that the point cloud shows a growth tendency, which demonstrates that the two variables, the euro/ron exchange rate and the exports are interdependent, meaning that the exchange rate influences the exports in Romania.

The analytical expression of the evolution of the two variables is linear and it is demonstrated that the variables are correlated.

In order to estimate the parameters of this regression model we used the Eviews statistical program, where we defined the equation which has as dependent variable the

value of Romanian exports for the period 2006-2014, and as independent variable the euro/ron exchange rate.

We also considered the fact that this regression model will contain the free term c.

The estimation method defined within the program is the least squares method. Based on the elements previously presented, the following results were obtained:

Table 1. The characteristics of the regression model

Dependent Variable: EXPORT  
Method: Least Squares  
Sample: 2006M01 2014M12  
Included observations: 108

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EURO	8.881733	0.581082	15.28482	0.0000
C	-22.75745	2.371799	-9.595015	0.0000
R-squared	0.687892	Mean dependent var	13.31149	
Adjusted R-squared	0.684947	S.D. dependent var	4.413952	
S.E. of regression	2.477531	Akaike info criterion	4.670747	
Sum squared resid	650.6451	Schwarz criterion	4.720416	
Log likelihood	-250.2203	Hannan-Quinn criter.	4.690886	
F-statistic	233.6258	Durbin-Watson stat	0.471004	
Prob(F-statistic)	0.000000			

Source: personal processing of data

### 6. Conclusion

In order to interpret the results obtained through the linear regression model it is necessary to establish from the start whether it can be considered correct and whether the results it offers can be used in real macroeconomic analyses.

As one can notice, the probability that this model is correct is very high – approximately 70%, this conclusion can be drawn based on the values determined with the help of the Eviews program for R tests – squared (0.687892) and Adjusted R – squared (0.684948).

Durbin Watson statistic (DW) is a statistical test which tests the serial correlation of errors. If the errors are not correlated, then the DW value will be around 2. In the case above, this indicator has a value of 0.471004, and as a result, there is a serial correlation of errors (residuals).

The validity of the regression model is confirmed by the values of the F statistical tests (233,6258 – value above the table level considered as guideline in the validity analyses of econometric models), as well as by the degree of null risk (reflected by the value of the Prob F- statistic). Prob F- statistic is zero, which mean a high significance of the estimating results and high significance of the model.

In our case the probability is zero, which means a high significance of the said parameter is indicated.

Based on the elements mentioned previously, we can consider that the regression model describing the correlation between the euro/ron exchange rate and the exports is correct, which faithfully reflects the real evolution of the two macroeconomic indicators. Thus, it is possible to write the linear regression model as follows:

$$\text{Export} = 8.881733 - 22.75745 \text{ euro/ron exchange rate}$$

This regression model allows us to establish a series of aspects with regards to the existent relationship between the two variables take into account. We notice that between the value of the euro/ron exchange rate and that of the exports recorded in our country between 2006 and 2014 there is an inverse relationship. Thus, we can assert that an increase by a monetary unit of the euro/ron exchange rate will lead to a drop of 22.75 monetary units in the export values.

Thus, we can conclude that the level of the euro/ron exchange rate is an influence factor in the evolution of export levels in Romania. As the exchange rate increases, exports drop.

The analysis suggests the vulnerability of the Romanian economic environment, the behavioral tendencies of which are difficult to identify, due to the fact that the business sector has suffered substantial structural changes in the last years, as it was directly influenced by globalization and the world economic crisis.

The limitations of this research are generated by the shaping of a rather small number of variables. In reality, the variation in export volume is due to other significant factors as well, which are not included in this model and may open new directions of

research for the authors, with the purpose of multifactorial modeling.

To conclude, we reckon that irrespective of the preferred approach with regards to the theories on the correlation between the exchange rate and the export, we can assert that they are indissolubly interdependent and this relationship can be studied upon a correct identification of the determinant values and of the adequate analysis models.

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## Meeting Users’ Information Needs through Integrated Reporting

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### Abstract

*One of the most debated issues included in the IIRC’s discussion paper was the consideration of the providers of financial capital as the primary intended users of the integrated reports. In this paper we determine which the salient stakeholders of the integrated reports are and which their needs are. In order to do this we analyse the evolution of the concept of stakeholder in the documents released by the International Integrated Reporting Committee.*

**Key words:** Integrated report, stakeholder, salience, information needs.

**J.E.L. classification:** M40

### 1. Introduction

The research question of this study is how the corporate homogenous stakeholders groups can be separated in order to address their information needs for different types of decisions. In order to achieve this goal we will focus on the information needs of a few categories of stakeholders: external and internal, traditional and modern. The importance of this theme is given by the real necessity of the companies to provide information to a varied range of stakeholders. Yet, the needs of the stakeholders are not fulfilled anymore by the financial reporting as we used to know it. The market determined the standards boards to enrich the reporting with new forms. The most sophisticated form of reporting nowadays is the integrated reporting (<IR>). Having a short history, the most important landmarks in the evolution of this practice are: the formation of the International Integrated Reporting Committee (IIRC) in 2010 by the Global Reporting Initiative and the Prince’s Accounting for Sustainability Project and the

mandatory adoption of the integrated reporting by the companies listed on the Johannesburg Stock Exchange (more than 450 entities). The IIRC was formed in order to prepare an International Integrated Reporting Framework (IIRF). The analysis of submissions to the <IR> Consultation Draft reveals that stakeholders perceived the framework as a first step towards better corporate reporting.

The conceptual advancement of the framework must be correlated with the specific users’ information needs. For most of the users, the usefulness of integrated reporting can be increased by “simplifying the language and avoiding the use of jargon or ‘legalese’,” the use of colours and charts, better designed websites, links to the information, XBRL [1]. The IIRC opted for a focused approach on the issue of primary intended users of the framework. This raises the question of how providers of financial capital and other stakeholder groups can be further categorised in order to accurately capture their specific information needs.

Even since 1984 it was recognized that “organizations must deal actively with their stakeholders,” this involving, among others, “measures of satisfaction of those groups whose support is necessary for the continued survival of the organization” (Freeman, 1984, cited by [1]).

This article is divided into the following parts: literature review on the multi-stakeholder model; research methodology; the results of the study; conclusions.

### 2. Multi-stakeholder model

During the last years, the companies acknowledged the fact that many categories of stakeholders are responsible (directly or indirectly) for their creation of value on long term. The specialized literature considers that the sustainability reporting (which is one of

the pillars of the <IR>) considers that an entity “should be accountable in the sense of providing an account of its actions to society” [2]. The instruments of reporting are tools of communication with the interested parties. Varied types of stakeholders contribute to the economic welfare of the companies. Thus, the interests of the respective stakeholders should be considered by the companies in “strategy formulation and implementation and in communication activities” [3]. As the space to communicate with the stakeholders in the annual report is limited and the cost of information is high, identifying the salient stakeholders is important for the companies.

According to Freeman (1984: 46) cited by [1] “a stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization’s objectives.” According to [4], the hierarchy of the stakeholders is established in the companies according to: (1) power; (2) legitimacy; (3) urgency of the claim. Once the hierarchy was established, the companies provide information to the most important stakeholders. Different studies identify different categories of stakeholders considered the most salient. For instance, according to [5] the most important stakeholder is the government.

Another debated issue is which are the categories of stakeholders which are taken into account by the companies. Different studies identify different types of stakeholders, as it is presented in table 1.

Table 1. Categories of stakeholders

Study	Categories of stakeholders
[6]	Customers, suppliers, employees and communities
[7]	- Private stakeholders: investors, employees and consumers - Public stakeholders: community, diversity, environment and human rights dimensions
[8]	Suppliers of financial capital, employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers

Source: compilation of the authors

Different stakeholder groups have different information needs. A synthesis of

the needs specific to each category of stakeholder is presented in table 2.

Table 2. Stakeholders’ specific information needs

Study	Category of stakeholder	Specific information needs
[9]	Providers of financial capital	“Employee relations, ethics, community involvement, product quality and environmental activities”
[10]; [11]; [12]	Professional users (e.g. financial analysts)	Less interest in sustainability information, as it is the least read section and it is considered of a poor quality
[10]; [12]	Employees	Sustainability information
[13]	Managers	Information related with their personal performance
[10]	Suppliers	Sustainability information
[10]	Customers	Do not use sustainability information
[14]	NGOs	Sustainability information

Source: compilation of the authors

Based on the above, we support the importance and usefulness of the research concerning the information disclosed for different stakeholders and their influence on integrated reporting practice.

### 3. Research methodology

Previous studies find that the industry in which a company operates appears to be an important determinant of the amount of environmental and employee information disclosed [15]. We argue that the salient stakeholders for various industries are different.

The annual report has been used as a primary document source to collect data in early studies largely because of its compulsory production [16], widespread distribution [17], high creditability [18],

standardized approach to data categorization over lengthy periods of time and ease of accessibility [19]. In this article we first analysed the presentation of the concept of stakeholder and the evolution of the classification of stakeholders in the documents published by the IIRC. Second, we analysed if the creation of value for different types of stakeholders is mentioned in the integrated reports of the companies included in the IIRC’s Pilot Program Business Network in 2013. We selected the creation of value as the IIRC considers that this is the characteristic which makes an entity a stakeholder. Our analysis relies on granting the following scores:

- 1: the creation of value for the category of stakeholder is mentioned in the integrated report;
- 0: the creation of value for the category of stakeholder is not mentioned in the integrated report.

In total, we analysed a number of 95 companies. The categories of stakeholders considered were: employees, government, investors, financial creditors, company, customers, environment/NGOs, society. The value creation for each type of stakeholder is considered to be: salaries and other forms of remuneration, taxes, dividends, interests, reported profit, expenses for the customers’ value creation, distributions for the environment and society and, respectively, donations.

#### 4. Results of the study

The IIRC was formed with the declared purpose to create an internationally accepted framework for <IR>. The steps followed for releasing the framework included the following landmarks:

- Discussion Paper “Towards Integrated Reporting – Communicating Value in the 21<sup>st</sup> Century” (September 2011);
- Draft Outline of the Integrated Reporting Framework (July 2012);
- Prototype of the International <IR> Framework (November 2012);
- Consultation Draft of the International <IR> Framework (April 2013);
- International <IR> Framework (December 2013).

According to [20], <IR> is critical to

*investors and other stakeholders*. The investors include the *providers of debt and equity*. Even though the integrated reports (which include both financial and non-financial information presented in an integrated manner) address the information needs of a broad range of stakeholders, the IIRC writes that in the beginning of this document that it wanted to focus on the needs of investors. The acknowledgement of the importance of the stakeholders is given by the creation of a special principle dealing with the stakeholders, namely: Responsiveness and stakeholder inclusiveness. The principle refers to the “organization’s relationships with key stakeholders and how and to what extent the organization understands, takes into account and responds to their needs” [20]. Salient stakeholders may be “*customers, suppliers, employees and local communities*” [20]. Another important concept which is present even in this first document is the *stakeholder engagement*.

The Draft Outline of the Integrated Reporting Framework doesn’t bring any changes related with the stakeholders.

In [21] the term “investors” is replaced by “*providers of financial capital*”. Other “*major*” stakeholders include (in addition to the ones mentioned in [20]) the creditors (which are no longer included in the same category as the investors) and “*NGOs, regulators, policy-makers and the environment*” [21]. Two of types (NGOs and the environment) are at the core of the sustainability. The name of the principle becomes here “Stakeholder responsiveness”. The definition of the principle refers to the interests and expectations of the stakeholders, along with their legitimate needs. The Prototype Framework includes a definition of the stakeholder: “Those groups or individuals that can reasonably be expected to be significantly affected by the organization’s activities, products or services; or whose actions can reasonably be expected to significantly affect the ability of the organization to successfully implement its strategies and achieve its objectives” [21]. The identification of the relevant stakeholders is important for the assurance of the materiality.

According to [22], the *providers of financial capital* are the *primary intended*

report users. Other stakeholders interested in the integrated report may be the ones mentioned in [21], with a few exceptions. We notice that the creditors are replaced by the business partners. Also, the NGOs and the environment disappear from the enumeration. This is very important in terms of sustainability reporting. In the same time, the legislators are added to the enumeration.

One of the most debated issues in the comment letter received to the Consultation Draft, was the classification of stakeholders. Most of the other categories of stakeholders consider that the integrated report shouldn't be prepared primarily for the investors, but for all the interested parties. The name of the guiding principle becomes *Stakeholder relationships*. The definition of the principle finally included in the IIRF is the following: “An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests” [8]. The categories of stakeholders are the same as in the Consultation Draft. The definition of the stakeholders included in the IIRF is: “Those groups or individuals that can reasonably be expected to be significantly affected by an organization's *business activities, outputs or outcomes*, or whose actions can reasonably be expected to significantly affect the ability of the organization *to create value over time*” [8] (emphasis added by the authors). Thus, the IIRC considers that the stakeholders are the ones which have an impact on the value creation of the organization.

In the second part of our study we analysed which are the categories of stakeholders which are most referred to by the companies in their integrated report. The results are presented in table 3.

Table 3. Most frequently mentioned categories of stakeholders in the annual report

Stakeholder	Sum	Average	Standard deviation
Investors and financial creditors (providers of financial	79	0.83	0.38

capital)			
Employees	70	0.74	0.44
Customers	72	0.76	0.8
Suppliers	66	0.69	0.46
Business partners	-	-	-
Society (local communities)	88	0.93	0.89
Government (legislators, regulators and policy-makers)	77	0.81	0.39

Source: compilation of the authors

We notice that in our sample most of the companies mention the way they create value for society and the least for the suppliers. On average, each company reports information about value creation for 4.52 categories of stakeholders. This is an important finding, showing that the companies adopt the multi-stakeholder model, as suggested by the new forms of reporting.

A specific category is represented by the business partners. We didn't extract data regarding this category, as it includes different stakeholders for each company. For instance, for Takeda (a Japanese pharmaceutical company) business partners are the doctors and the patients.

If we classify the stakeholders in external and internal, we notice that only one internal stakeholder is considered by the IIRC, the employee. If we classify the stakeholders in traditional and modern, we notice that the average for a modern one (the society) is the highest. This shows us that the companies understand how important it is to obtain the support of various types of stakeholders.

We also searched if the word value appears more frequently in the integrated reports in relation with the providers of financial capital. The results are presented in table 4.

Table 4. The appearance of the word value

Item	Number of pages	Value – number of appearances	Of which, in relation with the providers of the

			financial capital
Total	16,306	13,674	254
Average	171.64	143.94	2.67
Standard deviation	120.19	227.69	4.6

Source: compilation of the authors

We notice that the average of the presentation of the value for the providers of financial capital is very small. Thus, if the word value appears almost on every page of the annual report, the value of providers of financial capital appears only once in 60 pages. The result shows us that the companies do not consider that the integrated reports should address first the needs of this category of stakeholders.

## 5. Conclusions

The content of an integrated report is still debated at an international level. We argue that the salient stakeholders have an influence on the information disclosed in the annual report. We aimed to establish in this paper the stakeholders which are considered salient by the IIRC and the specific needs that the integrated reports address. We showed that the salient stakeholders are considered by the IIRC to be the providers of financial capital (both investors and creditors). Yet, this may be a step back from the current reporting practices of the sustainable companies. After analysing the integrated reports prepared for 2013 by the companies included in the IIRC’s Pilot Program, we could reach the conclusion that the companies are reporting information regarding various types of stakeholders, not only the providers of financial capital. This is why we consider that in the future the IIRC might restate its position in this regard.

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## The Perception of Professional Accountants on Management Accounting

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### Abstract

*This paper presents the results obtained from processing the information contained in research conducted at national level „Management accounting: obligatory or optional ?,” and in the research conducted at the county level „Study on the organization of management accounting at the level of economic agents from Caras-Severin”, surprising aspects of professional accountants perception on accounting management, applicable law and its status in the dualist accounting system. Management accounting is an important part of the economic information system, with a key role in decision making, whether we talk about small and medium enterprises or large companies. However, management accounting is superficially treated in most economic entities, there are entities in which professional accountants consider management accounting as optional.*

**Keywords:** professional accountant, management accounting, economic information system, cost, legislation.

**JEL Classification:** M410 Accounting

### 1. Introduction

This paper presents the results obtained from processing the information contained in research conducted at national level „Management accounting: obligatory or optional?”. The objective of this study was to identify the perception that accountants have on management accounting, and so, for this objective we used quantitative research method, based on the questionnaire. The article is structured as follows: Section I consists of two subsections, as it shows, on

the one hand, specialty shows authors' opinion on the concept of management accounting, and on the other hand, the management accounting in perception legislature. Section II surprising aspects of professional accountants perception on accounting management, applicable law and its status in the dualist accounting system, based on the response of the target group was constituted at the level of 15 County's, from 532 economic entities classified in different categories.

### 2. Management accounting literature

According to Kaplan and Norton accounting is a „business language”[1]. In this context we must look at the accounts as a whole, both financial and management accounting. Accounting is an important source of economic information [2] for managing any entity, with its also mentined branches. The most representative sources of economic time and information is [3]:

1. The economic planning, The most representative sources of economic data and information are [3]:

1. The economic planning, which provides economic informational planning and business prognosis data, their share being of 28% of the total economic information;

2. The economic database which provides effective information data, representing 70% of the total economic information, distributed as follows:

- 46-50% information provided by accounting;

- 9-13% information provided by the economic-social statistics;

- 11% of the information is provided by the active database;

3. Other sources represent the rest of the 2% percentage

Since the early 2000s there were attempts to achieve a common language for the entities acting on international financial and capital markets through a single set of accounting standards, known as accounting normalization, normalization performed even at accounting management [4], international normalization of managerial accounting (specific elements for general financial accounting) and specific elements of management accounting) being achieved by the work done by The Professional Accountants in Business Committee, a component of the International Federation of Accountants which has developed a series of rules on basic concepts of management accounting, trying to harmonize the terminology specific to it. [5]

The organization of accounting evidence is not an end in itself, accounts can be defined as an information system that aims quantification, processing and communicating financial information about an economic entity. Thus, we can say that „raw data regarding economic activities is an input into the accounting system and the processed information useful for decision makers, it is the output”. [6]

The main objectives of management accounting are costing, the outcome and profitability of manufactured products, works and services rendered, the forecast expenditure and revenue by drawing up an internal network of budgets, cost control and budgets through irregularities and supplying the necessary data to substantiate decisions on management entity, and the goal must be regarded on the collection, processing and reporting of data, namely to boost investigation and the discovery by signaling the relevant information and generating questions. [7]

Accounting may be regarded as an information system that records, monitors and controls uninterrupted, those economic phenomena and processes that can be expressed in value [8]. Accounting subsystem privileged place occupies in the information system of an economic entity is given precisely by aggregation possibilities offered by monetary standard [9]. Based on the accounting information function, which is to provide information in order to develop decision, and considering the two components of accounting, we can say that

accounting is a function of internal information (economic entity management) and an external information function (a third party). [2] Moreover using accounting information one can grasp what is the management of resources (material, financial and human) in an economic entity, the evolution of production achieved, production costs, income etc. In decision-making, the management accounting role is to provide accurate information in a useful form, that must collect and report appropriate information and inform it in a manner relevant to management. [7] According to the transparency degree, the accounting-provided information are grouped in two categories [10]:

- totally transparent information: those related to the financial position and performance. They are subject to the financial accounting. They are obtained after regulations stipulated by the Public Finance Ministry, thus they have standardized character, being published for a correct information of all interested persons;

- less transparent information: the ones that refer to cost calculation, to the structure of the enterprise budget, the knowledge of internal performance, etc. They are subject to management accounting. They have no standardized character and are not disclosed to the public, as they are related to the enterprise secret

Information and the information system are terms with increasing impacts on the enterprises, invading the models and the management analysis fields. The Economic Information System existed in all social orders, being appropriate to the human society development stage. It plays an important role in the national economy, for making permanent connections between the operational systems (production, trade, service provider, etc) and the management system in both ways, under all aspects. [11]

It is stated that, accounting as a social practice, makes it more than just a technique, a tool of power, and therefore financial accounting has become in all countries standardized, regulated and controlled. [12]. On the other hand, accounting provides over 47% [13] of the economic information necessary for the management of any organization, and „management accounting is the integral part of the management which



deals with the identification, presentation and interpretation of information”. [14]

### **3. Management Accounting in perception legislature**

According to Law 82/1991, accounting in Romania is organized in double circuit, financial accounting and management accounting. [15]

Since the Accounting Law in art. 1, paragraph 6 provides that organizearea and leadership management accounting is appropriate, according to regulations developed in this regard, many economic entities determined not to organize this type of accounting, managerial accounting and part of such managerial decisions are based only the accounting information arising from the financial accounting. The formal dualism or the accounting system in two circuits is an organization of the accounting system that allows a dissociation between the financial accounting, which is subject for standardization, and the management accounting, for which the following rule is applied “no admittance except on bussiness” [16] and which ensures the advantage of high accounting information confidentiality. [17]

The normative regulations in our country integrate the management accounting objectives as follows [18]:

- entry of operations regarding the cost collection and allocation by destinations, respectively activities, departments, production phases, cost centers, profit centers;
- calculation of the costs of acquisition, production, of incoming goods processing, of executed works, of provided services, of production-in-progress, on-going assets, etc, from production, trade, service providing, financial units.

The management accounting must ensure the production and the supply of information related to the efficient management of the enterprise patrimony, such as [18]: information on the costs of goods, works, services, for legal persons engaged in production activities, service providing as well as on the cost of goods sold for legal persons engaged in trade activities; information underlying the budget and the control of operating activities; information necessary for the financial analysis in order

to substantiate the management decisions regarding the internal activity; other information required for an efficient management. In the latest legal regulations [19] references are both to the management accounting in the context of internal control, and is the chapter that mentions the functions contained in the chart of accounts mainly the accounts used within class 9 „account management”. Regarding the internal control, it is said that it shall aim to verify whether accounting, financial and management information reflect correctly the activity and situation of the entity and in respect of the use of Class 9 „account management” it is not mandatory (words that determine the most professional accountants to use Class 6 accounts for relying costs).

The information provided by management accounting are of vital importance in the management of a company, because they ensure a good management in decision-making.

### **4. Management Accounting in accountant’s perception**

#### *4.1. Research method*

Due to the fact that the Romanian legislator, the accounting professionals and the academics constantly emphasize the financial accounting, we thought it necessary to initiate a research theme entitled „Organization of management accounting: mandatory or optional?”; the present paper is integral part of the research theme.

In order to highlight the importance of management accounting in the management process, we elaborated a questionnaire structured in three parts, respectively: legislation in management accounting, the importance given by an entity to the information provided by the management accounting and the last part dedicated to professional accountants. The target group was constituted at the level of 15 County’s, from 532 economic entities classified in different categories, so that they are presented in OMFP 1802/2014. The questionnaire was eneviable at <http://goo.gl/forms/KKQBtb2Tah>, and the research results were centralized using the SPPS program.

The target group was composed of professional accountants appearing on the list of members of the Chamber of Chartered Accountants and Licensed Accountants of

Romania (CECCAR), but unfortunately the response came only from the professional accountants from 17 counties, namely: Alba, Arad, Arges, Bacau, Bihor, Bistrita, Botosani, Braila, Caras-Severin, Covasna, Dolj, Galati, Hunedoara, Mehedinti, Olt, Timis, Valcea. Given the nature of their work, professional accountants have not responded to our request (made via CECCAR subsidiaries in Romania), so at Caras-Severin county these questionnaires were distributed personal, and professional accountants from other counties were contacted by phone. The fact that we do not have answers from all counties in Romania, is one of the limitations of this research, and we want to eliminate it by keeping active the questionnaire and sending personalized invitation to complete the questionnaire that underlies our research. Another limitation of our study is that the issue of accounting organization is viewed from a single perspective, that of professional accountants, thus in future we tend to broadening research (together with specialists in management), applying a questionnaire at internal users of accounting information in general, and in particular for specific management accounting.

To view the representativeness which was the basis of our research, through surveys on the members of CECCAR subsidiaries on the jurisdiction of the counties mentioned above, we can see that the share of respondents is 13%, based on the number of members. [20]

In the present paper we want to capture the perception of professional accountants regarding the organization of the accounting management and the utility that arise from processing data through specific methods of accounting management, and not least the degree knowledge of normative acts in the field.

Regarding the structure of the questionnaire, in the first part we aimed at identifying economic entities that organize management accounting and to identify professional accountants who consider management accounting as a compulsory activity (aspect caught also in the present paper).

The second part of the questionnaire is devoted to those entities that organize management accounting, being surprised information sources for identifying methods and procedures used, problems encountered and the solutions identified during their implementation, the evaluation of these

problems by frequency and severity and last but not least the way we realize the collection in accounts of expenses includes in costs. (aspect that will be developed in future work).

The third part of the questionnaire is devoted to legal regulations, those identifying awareness and understanding them, how they help to organize management accounting and accounting professionals proposals to the legislator on the organization of management accounting (aspect captured in this work).

The last part of the questionnaire includes information on the identification of professional accountants, namely: relationship with the economic entity they represent, training, experience in the field and the economic entity he represents, including its location (matters which were at the basis of processing results).

#### *4.2. Results*

This paper presents the results obtained from processing the information contained in research conducted at national level „Management accounting: obligatory or optional ?,” and in the research conducted at the county level „Study on the organization of management accounting at the level of economic agents from Caras-Severin”, surprising aspects of professional accountants perception on accounting management, applicable law and its status in the dualist accounting system.

To capture the above mentioned aspects, we have chosen the following questions:

*Does the entity that you represent organize of management accounting?*

*Do you consider the organization of management accounting as mandatory or optional?*

*Do you know the laws governing the organization of management accounting?*

*How accessible do you find the legal provisions relating to the organization of management accounting?*

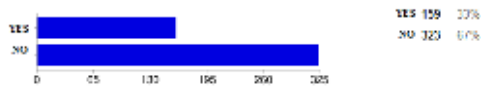
*Were the information contained in regulations, mentioned above, sufficient to organize management accounting?*

*What are your proposals for the legislator regarding the organization of management accounting?*

First we must emphasize that, of the 533 entities surveyed only 33% (nationally) and 34% (in the county of Caras-Severin) organize and lead management accounting, the most entities that organized management accounting are in Bihor county, where more

than 50% of respondents are representatives of professional accountants entities that organize this type of account.

Figure 1. Graphical representation - management accounting organization



Source: Realised by authors from data processing

The field of research is the main reason that determines those responsible for organizing and conducting the accounting accordance with the law, in these economic entities not to organize this activity (eg. trade, construction, textiles, services, transport), the method used by them for estimate the cost of the product / service being information specific financial for accounting (situation of suppliers, sheet account, expense accounts, track orders, analytical financial accounting organization). What should be stressed is that some respondents identify that estimate is a source of information for estimating the cost of the work / service, without knowing that it is a tool of management accounting. General estimate is defined as economic document that establishes the total estimated ammount of costs necessary to achieve the investment objectives or costs associated with investments, needed for the intervention works in construction and installation in the design phase, feasibility study and technical project [21]. Through this economic document it id determined the total value of the expenditure required to achieve the investment objectives.

Regarding mandatory for this type of accounting majority of respondents consider it optional (about 80%), given that 70% of respondents do not know the existing regulations in the field, even if they are certified accountants, or auditors.

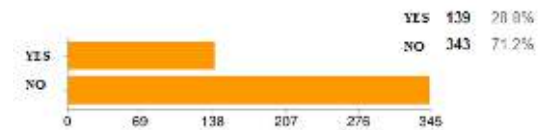
Figure 2. Graphical representation - Accountants perception – obligatoriness



Source: Created by authors from data processing

Professional accountants who know the normative acts regulating the organization of management accounting, lists the following regulations: OMFP 1826/2003 for the approval of the Specifications regarding measures on the organization and management of the accounting, OMPF 3055/2009 approving accounting regulations compliant with European directives (Research conducted prior to 01.01.2015, now repealed by Order 1802/2014) and not least the Accounting Law 82/1991.

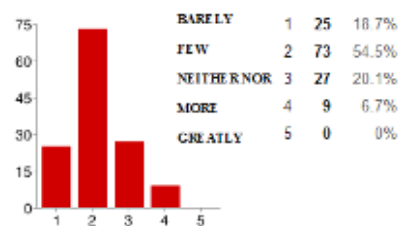
Figure 3. Graphical representation - Accountants perception – legislation



Source: Conducted by authors from data processing

In terms of legislative accessibility provisions, most professional accountants consider them very difficult and challenging (50%), only less than 10% are familiar with the language used in the accounting of these regulations and can easily achieve it in practice . What should be stressed is their inadequacy for the good organization of management accounting (90% of respondents consider the information contained in regulations as insufficient).

Figure 4. Graphical representation - Accountants perception - legislation accessibility



Source: Realised by authors from data processing

Finally we want to present the professional accountants proposals for the legislative in the field of management accounting as follows:

- presentation and exemplification of methods for collecting and allocating of agreed indirect costs;
- detailing the calculation methods for categories of activity;

- methodology for determining the calculation methods;
- exemplify each of agreed calculation methods.

## 5. Conclusions

The aim of this study was to identify the perception that accountants have on management accounting. For this purpose we used quantitative research method, based on the questionnaire.

Even if one of the limits of this research is the fact that we have no answers from the Romanian counties, we hope we have managed to underline the current perceptions the accounting professionals have on management accounting.

From the foregoing we can say that professional accountants are accustomed to the strong legislated character of accounting (financial accounting), thus we consider the information contained in legislative provisions insufficient, proposing to the legislature better regulation of specific methods for management accounting. The most important issue facing the organization of management accounting is the incomplete law, namely legislative inadequacies. This contradicts the perception that accounting professionals provides more information to the government and less for internal users (management of economic entities). We consider that the organization of a second circuit of accounting is required, as well as financial accounting, knowing that, legislative provisions require its organization.

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## Harmonization of Monetary and Fiscal Policies. Mix or Separation? An Overview of Romania’s Economic Reality Between 2000 - 2013

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### Abstract

*In this paper we tried to present an overview of the impact that monetary and fiscal policies had on Romanian economy between 2000 - 2013. We searched about the importance of separation or combination between the two most important macroeconomic policies.*

*How did the fiscal authority answer through its fiscal policy to the monetary actions adopted by NBR? Is there an interdependence between them, or there is really a separation?*

*Without any doubt, as it will result in the final, the need to approach simultaneously the two policies mentioned above is a condition for achieving economic balance ans, so, macroeconomic stability.*

**Key words:** monetary policy, fiscal policy, economic growth, inflation, stability.

**J.E.L. classification:** E52, E62, E63, O40.

### 1. Introduction

Many opinions spoke about the existence of a separation or a mixture between economic policies. The most spread idea is that of using monetary and fiscal policies simultaneously, taking into consideration that the positive effects of one policy can be annihilated by the negative effects of the other. And that is why, an expansionary monetary policy is used by the National Bank of Romania (NBR) in order to temper an expansionary fiscal policy.

As it was said before, the two policies have divergent effects in the real economy, so, in this case, the way each authority answer at the policy proposed by the other

part is essential. When the government will increase fiscality (by raising taxes), NBR will answer with an increase in the money supply on the market, cushioning the level of interest rates as a result of the expansionary fiscal policy. In other words, by tempering interest rates, investments and aggregate demand (production) are stimulated.

Other case of advantage of the mixture between the two policies is the situation when NBR promotes a monetary policy centered on reduction of inflation. If fiscality remains constant, not only inflation will increase, but also the budgetary deficit will. Reducing inflation is a permanent objective of every monetary policy, but this can be done solely with an active fiscal policy help.

During inflation, NBR increases the monetary policy interest rate, that in time reduces inflationary pressure. On the same time, this measure will generate a decrease of the gross domestic product (GDP), an increase of the unemployment rate, so less budgetary revenues and a deepened budgetary deficit. As a consequence, it is recommended to use a combination of the disinflationary monetary policy and an expansionary fiscal policy (by raising taxes), that will temper the budgetary deficit.

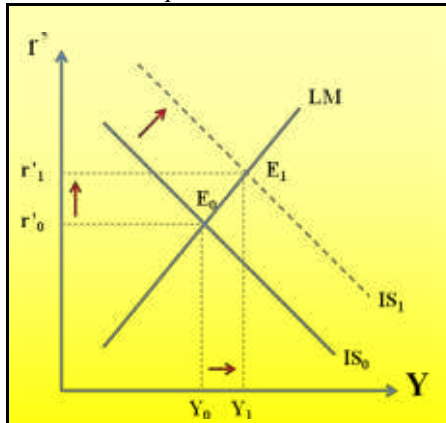
### 2. Monetary and fiscal policies - separation?

It is a fact that in case of separation, we will confront with an economy that has lost its direction. The mixture of these two policies is efficient while the established objectives of each policy are not divergent. They must together lead to a reduction of inflation and to economic growth. In achieving this, the mixture is efficient.

If we use the IS-LM model, then an **expansionary fiscal policy**, characterized by reduction of taxation or by increasing the governmental expenses will generate a shift of IS curve to the right, from  $IS_0$  to  $IS_1$ .

In this way, the income and the interest rate will increase from  $Y_0$  to  $Y_1$ , and from  $r'_0$  to  $r'_1$ , respectively. (see *Figure 1*).

*Figure 1. Effects of expansionary fiscal policies*



Source: own processing

The expansionary policy will intensify the consumption, so the level of production. Therefore, both transaction money demand and interest rate will increase, which will ultimately reduce the level of investment.

Through an **expansionary monetary policy** – using the same IS-LM model – LM curve moves to the right, from  $LM_0$  to  $LM_1$ , leading to an increase in income (from  $Y_0$  to  $Y_1$ ) and a decrease of the interest rate (from  $r'_0$  to  $r'_1$ ).

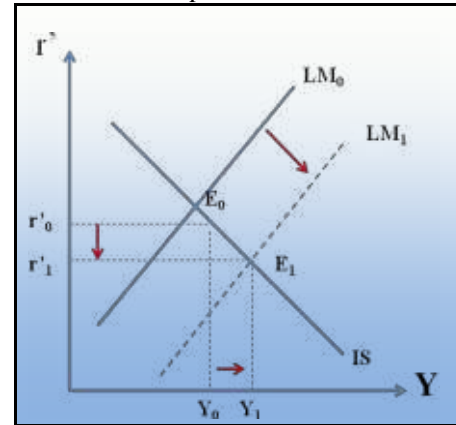
So, an increase in the money supply lowers the interest rate, which will result in stimulating investments, and thus, production/output (see *Figure 2*).

In these conditions, we can not talk about absolute efficiency of one of the policies, but rather a more efficient one and less efficient of the other.

Thus, if we assume that **fiscal policy has maximum efficiency and the monetary policy is ineffective**, we face the *liquidity trap* phenomenon, where people keep their savings at “home”. In this situation, money demand is very elastic relative to interest rate, while the elasticity of investments over the interest rate is low. Moving the IS curve (either left or right), when LM curve is horizontal, only changes the level of income.

Conversely, when **monetary policy has maximum efficiency** (LM curve is vertical), any change of the IS curve has an impact only on the interest rate, not on income. The elasticity of investments to the interest rate is, in this situation, high.

*Figure 2. Effects of expansionary monetary policies*



Source: own processing

**All in all**, we appreciate that *the IS and LM curves slopes influence the effectiveness or ineffectiveness of the two policies*. A large IS curve slope (and a smooth LM curve slope) will result in a relatively small increase in interest rate, which would lower the investment appetite and the incomes, thus *streamlining the expansionary fiscal policy*. On the other hand, *the effectiveness of expansionary monetary policy* is seen when the LM curve slope is high (the interest rate is reducing, the incomes are increasing) and the IS curve slope is low (a reduction in interest rates stimulates investments and incomes).

*Therefore, the efficiency of these two policies is obtained their combination, not their separation* – the increase of the budgetary expenses or the reduction of taxes is achieved through money supply, which causes an increase in incomes, while maintaining constant interest rate, without affecting investments.

Thus, in **economic recession** (high unemployment, low GDP) a *mix of expansionary monetary and fiscal policies* is recommended. In times of **economic expansion**, *contractionary monetary and fiscal policies* are best to use, because they slow down development (investments) and inflationary trend.

It is obvious that as the interest rate changes are smaller and investments will not answer promptly to these changes, the fiscal policy strengthens its efficiency. [1]

### 3. An economic approach over Romania (2000 - 2013)

In Romania, the period between 2000-2005 is characterized by a disinflationary monetary policy combined with a prudent fiscal policy. [2]

Thus, among the measures taken, we can mention:

- reducing the budgetary deficit from 4.70% of GDP in 2000 to 1.20% of GDP in 2005 and maintaining it around this level (see, for instance, the period 2003 – 2005);
- non-inflationary growth of the monetary base, reducing the reserve requirements rate (RR) in RON in order to fill up the economy with liquidities (from 30% in 2001 to 16% in 2005);
- adopting a controlled floating exchange rate policy for its stability.

Under these circumstances, the annual inflation rate went down from 27.20% in February 2002 to 8.60% in December 2005, with a minimum value of 9.30% in the last month of 2004. Moreover, GDP per capita increased from 3.63 bill. RON/capita in 2000 to 13.36 bill. RON/capita in 2005. The economic growth was also sustained by decreasing the unemployment rate from 7.50% in 2002 to 6.80% in 2003 and, last, but not least, by reducing the interest rates (on deposits, from 33.11% in 2000 to 6.42% in 2005 and on credits, from 53.85% in 2000 to 19.60% in 2005). All these measures have stimulated the foreign direct investments (FDI) in the economy, their share of GDP raising from 2.83% in 2000 to 8.49% in 2004.

The first months of **2000** were characterized by a careful attention to reforming the fiscal system: reducing taxation on profits from 38% to 25%, setting VAT at 19%. For this last measure, Romania “missed” the inflation target forecast of 27%, ending the year at 40.7%. [3]

The monetary policy followed the disinflationary trend, but the events from the second semester of 2000 (National Investments Fund fall in May 2000, which

boosted tensions among the population, so that it withdrew its savings from this fund and, last, but not least, the severe drought, that increased agricultural products prices), led NBR to impose some restrictive measures. At the same time, the depreciation of RON created the base for increasing international competitiveness (exchange rate of 2.4118 RON/EUR at the end of December).

**2001** is the year that Romania has the highest GDP growth (5.68%) of all candidate countries to the European Union (EU). It’s a year favorable for economic development (low prices of agricultural products, oil). [4]

The main priority of NBR in **2002** remained the continuation of disinflationary process. For this reason, NBR decided to maintain the same level of interest rates on deposits, urging population to save money, not to spend it and so, to accelerate inflation (NBR focused on interest rate and credit channels in the transmission of monetary policy impulses).

Consumption had in **2003** a very strong influence over inflation. If in the first half of the year, NBR adopted a prudent monetary policy (by lowering interest rates), starting with the second semester and with accelerating consumption, imports, widening the balance of payments deficits, it passed to a contractionary policy (see, for instance, the increase of monetary policy interest rate to 21.25% in December).

Consumption was sustained by increasing the minimum wage, by attractiveness of bank loans and also by reducing interest rates on deposits, which inhibited the saving trend.

In **2004**, monetary policy was contractionary and anti-inflationary. Following a contractionary fiscal policy, the budgetary expenses grew less than revenues, resulting in a budgetary deficit of 1.30% of GDP, less than the previous year (1.50%), which emphasized the disinflationary process.

The prudent policy of NBR has also influenced the economic growth, in 2004 reaching a high level of 8.49% (the evolution of real GDP growth rates values from 2000 – 2011 can confirm this). This attitude was requested by increases in administered prices, in wages (in a parliamentary and presidential election year), of oil price and by stimulating lending. Capital inflows from April 2004 –

when Romania joined NATO – and continuing with the process of capital account liberalization, had led the NBR to slightly reduce the interest rates, as a necessity in the disinflationary process and in order to prevent speculative capital inflows (the monetary policy interest rate decreases in 2004 from 21.25% in January, to 17.00% in December), the national currency starting to strengthen at the end of 2004, reaching 3.2264 RON/EUR in June 2007.

During capital inflows, it is recommended to tighten fiscal policies, which will reduce the aggregate demand, the current account deficit and also inflationary trend. Furthermore, it can increase the saving trend of population and can reduce the interest rates, limiting new capital inflows.

During this period, the development of credit and wage growth made that export was no longer the main driver for economic growth, leaving it to the domestic demand (consumption), distorting the balance of trade (from 2.96 bill. EUR in 2000 to 7.35 bill. EUR in 2004 and even 10.31 bill. EUR in 2005), increasing the current account deficit (from 3.63% of GDP in 2000 to 8.42% in 2004 and 8.57% in 2005), ultimately influencing macroeconomic stability.

Regarding economic growth, we can see an increase up to 2004 (8.49%), followed by a sharp decrease to 4.15% in 2005, a zigzag path, culminating with a negative value during crisis (-6.58% in 2009). Real GDP growth rates declined because of reducing consumption, exports and interest rates.

Consumption has a significant share, which increased during 2000 – 2011 from 85.93% in 2000 to 97.51% in 2011, with a maximum of 99.67% in 2008. It is obvious that a flat tax of 16%, an increase of the gross salary, they both raised incomes, stimulating consumption - the main factor of economic growth or decline. The unemployment rate remained constant during 2005 – 2011, with small oscillations, reaching 7.40% in 2011.

The lower values of budgetary deficit (1.20% of GDP in 2005) explained better the efficiency of the policies mix.

Capital account liberalization continued in 2005, too. This meant a better allocation of resources, with positive effects on the Romanian economy. In this way, the capital inflows financed the current account deficit –

which widened due to increased consumption, import of raw materials, etc.

However, liberalization has not only had positive effects on the economy, so NBR “counter attack” with *exchange rate flexibility*, by *reducing interest rates in order to limit the speculative capital inflows*, and also, by *reducing the monetary policy interest rate, for continuing the disinflationary trend*. The government reduced income and profit taxes and established a flat tax of 16%, which would have boosted investments and tax evasion would be reduced.

*Tax reduction occurred in a moment in which, theoretically, in a process of capital account liberalization, the fiscal policy should be restrictive for not emphasize demand and for not stimulate the inflationary process.*

Between 2005 – 2011 (except during September 2007 – July 2008, in crisis and July 2010 – June 2011), the inflation rate had a downward trend due to inflation targeting strategy adopted by NBR.

**In conclusion**, *reducing the inflationary trend* was due to national currency appreciation, increasing market competition, increasing saving trend and to a contractionary fiscal policy reducing the budgetary deficit from 9% of GDP in 2009 to 6.80% in 2010 and 5.60% in 2011, while inflation decreased from 6.09% in 2010 to 5.83% in 2011). *The raising of inflation* was stimulated by increases in administered prices, in excise taxes, by increases in gross salaries and also by foreign currency lending that boosted consumption, increased arrears in the economy and budgetary deficit (from 2.90% of GDP in 2007 to 5.70% of GDP in 2008) and last, but not least, by increasing market liquidity and by lowering interest rates.

In order to reduce the budgetary deficit, some contractionary fiscal policies are applied. The widening of the deficit depends on raised budgetary expenses and lowered budgetary revenues. During 2000 – 2004, the budgetary deficit was reduced from 4.70% of GDP to 1.30% of GDP, becoming essential in limiting inflationary pressures.

The introduction of a flat tax of 16% in 2005 had an impact on the budgetary deficit in 2006, which rose from 1.20% to 2.20%, despite a slight increase of budgetary



revenues. The widening of budgetary deficit in 2007 compared to 2006 is due to the increasing share of spendings in GDP (to 38.20%), more than the share of revenues (to 35.30%). However, during 2008 – 2009, the growth of the deficit is based on both reducing revenues and raising expenses. During this period, the real GDP growth rate decreased from 7.35% to -6.58%.

The contractionary fiscal policy from **2006** – by establishing a vice tax on tobacco and alcohol – has led to inflation. However, the completeness of capital account liberalization process and the prospect for EU accession, have both influenced favorable the exchange rate, have increased the investor’s trust in the Romanian market, with positive effects on the rate of inflation (which dropped from 8.89% in January to 4.87% in December).

Investors’ capital withdrawals from the financial crisis started in **2007**, had firstly an impact on the less developed economies, which haven’t have the mechanisms to maintain economic stability. The budgetary deficit rose up to 5.70% of GDP in 2008 (the highest value in the last years) and the current account deficit stood still very high. Increasing demand was due to the development of consumers loans (except in the last quarter of **2008**) and to a “relaxed” fiscal and income policies, specific to an election year.

How did NBR react against the speculative attack on the national currency from October 2008?

Through quick sale of foreign currency, to temper initial depreciation of the national currency, that determined simultaneously a decrease of liquidity and an increase on the interbank interest rate. Thus, NBR fought against the speculative attack simply by selling foreign currency, without acting first through monetary policy interest rate!

The balance of trade remains the main cause of the current account deficit. In 2003 and 2005 we see an increase of the current account deficit (up to 5.57% of GDP and to 8.57% of GDP, respectively) due to an increased domestic demand. At the same time, the balance of trade deficit rose from 5.59 bill. EUR to 10.31 bill. EUR, exports increasing less than imports. The balance of trade deficit widened until 2008 (-23.47 bill. EUR), than decreased to 9.86 bill. EUR in

2009 due to accelerated reduction of imports from 57.15 bill. EUR in 2008 to 38.95 bill. EUR in 2009. The large increase of exports can explain the widening of the balance of trade deficit. The decline in imports in 2009 due to reduced consumption (up to -6.50% of real GDP growth rate) and investments (whose share of GDP fell from 6.81% in 2008 to 2.95% in 2009) slowed down an excessive imbalance of the balance of trade. Maintaining the level of the balance of trade deficit during 2010 – 2011 at around -9.86 bill. EUR was the consequence of increased exports, which covered any raise in imports. Thus, exports grew from 29.09 bill. EUR in 2009 to 45.27 bill. EUR in 2011.

The effects of the economic crisis were seen in **2012**, too. The prudent monetary policy of NBR allowed the stimulation of demand in the first months of the year, while, at the end of 2012, the internal and external shocks tightened it. The crisis from Greece, the political tensions in Romania, as well as severe drought that led to an increase of agricultural products prices, were decisive factors in changing the strategy. After reaching a record low in April and May (1.8%), the inflation rate increases to 4.95% in December, compared to 3.14% in December 2011, as a result of increasing prices of food raw materials and energy products.

In these circumstances, NBR maintains the RR in lei and in foreign currency, as well as the monetary policy interest rate (at 5.25%).

RON depreciates throughout 2012, with a small exception - towards the end of the year - when, due to risk aversion reduction (following the measures taken by the central banks) and to the political situation calming after the parliamentary elections in November, the trend reversed.

Economic growth slowed down in 2012 mainly due to the evolution of agricultural production, the real GDP falling to 0.7%, because of a very poor harvest as a result of unfavorable weather conditions. In **2013** both the industrial sector (through exports of means of transportation, machinery, equipments) and agriculture sector (due to a poor production in 2012) were engines of economic growth.

The poor harvest in 2012, the adjustments in administered prices led to higher inflation

in the first half of 2013, when the central bank's policy was one of caution, maintaining the monetary policy interest rate at 5.25% and the RR in lei and in foreign currency at 15% and 20%, respectively.

Reduced VAT on some bakery products at 9%, in September 2013, the increase of agricultural production due to favorable weather conditions and inflationary expectations improvement have led to a lower inflation rate in the second half of 2013. In parallel, the central bank relaxed the monetary policy, reducing the monetary policy interest rate from 5.25% to 3.5% in February 2014 and the RR in lei from 15% to 12% and in foreign currency from 20% to 18% in January 2014, in order to harmonize with European standards and to stimulate lending.

Unlike this loose monetary policy, the fiscal policy in 2013 included constraint measures for lowering the budgetary deficit.

The fiscal policy acted procyclical in 2012 and 2013, too. Amid freezing pensions, reducing social welfare spending, capital expenditure and subsidies, the budgetary deficit fell to 2.9% of GDP compared to 5.6% in 2011. The share of budgetary revenues in GDP increased slightly following a higher absorption of post-accession funds than in 2011.

Although the budgetary revenues decreased in 2013 compared to 2012 by 1 percentage point, despite absorption of European funds, the budgetary deficit continued to decrease to 2.3% of GDP, due to a reduction in public spending (social welfare spending, capital expenditure).

It is ideal to achieve - through an effective fiscal policy - during economic growth periods, a highly enough level of budgetary revenues, that will compensate the turbulences that will arise during recessions, leaving then monetary policies to demonstrate their true value.

To overcome the financial crisis, for the economic recovery of Romania, the mix of monetary, fiscal and incomes policies is required. The first steps were taken in 2009 by accessing external funding from IMF and EU. These agreements were done to regain the confidence of foreign investors to continue operating in Romania.

Capital inflows have strong inflationary accents, putting monetary policy in front of a

difficult choice. **Firstly**, to reduce inflation, NBR should raise the monetary policy interest rate, encouraging saving. In this way, investments will not increase very much, keeping the current account deficit at reasonable limits. **Secondly**, any increase of the interest rates will also increase the interest differential, which becomes very attractive to other capital inflows and to an appreciation of RON, which can have significant effects in moderation of inflation process.

#### 4. Conclusions

As it was presented above, the policies mix is essential in ensuring macroeconomic balances, thus stimulating economic growth and whole economy development.

Therefore, the monetary policy mainly aims price stability, while fiscal policy may intervene in maintaining these balances, by setting budgets that do not deepen the budget deficit, with impact on the current account deficit, too. Boosting exports through incentives is another way that fiscal policy can intervene effectively in the economy. In addition, the income policy should aim productivity, knowing that any increase in salaries means inflationary pressure.

**It requires** each policy to act in time to restore balance, stopping turbulences to spread, affecting other indicators. In the absence of concrete actions from fiscal and incomes policies, a contractionary monetary policy can ensure short term price stability.

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# How the Distribution System and the Granting of Drug Discounts, is an Influencing Factor for a Pharmaceutical Units’ Financial Performance

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## Abstract

*The study aims to analyze how the economic and financial indicators of pharmaceutical entities are influenced by the discounts granted by distributors of pharmaceuticals. The work is based on the analysis of economic and financial performance indicators accomplished by a community pharmacy in Prahova. Thus, the analyzed discounts, granted by distributors of drugs related to pharmaceutical entities, registered separate values for each distributor and product groups and their share in turnover.*

**Keywords:** drugs distributors, pharmacy, discounts, financial performance

**J.E.L. Classification:** A11, L65, P52.

## 1. Introduction

The objective of each pharmaceutical entity is to achieve its main activity, namely, to achieve a favorable economic and financial performance, allowing its development both in terms of the ability of drug delivery and patient demand and in terms of both quality and assortment.

Given the current health system, respectively the provision of free and compensated drugs that should be issued by pharmacies to patients, we analyze how these have influenced the pharmacies recent financial performances.

If in recent years, the debt of the National Health Insurance Fund (known in Romania as CNAS -Casa Nationala a Asigurarilor de Sanatate) to pharmacies representing the value of free and subsidized drugs were settled with considerable delays, exceeding the 2009- 2013 period over 300 days, this has

directly influenced the financial capacity of pharmaceutical units, leading the pharmacy into payment default and even into insolvency.

In this difficult period for the financial performance of pharmaceutical entities, the drug distributors managed to improve financial results by providing trade discounts, respectively commercial interest.

The level of discounts given was a factor in the pharmaceutical entities orientation to a particular distributor. Along with this factor, the pharmacies collaboration with a particular distributor was influenced by the structure of the assortment offered, the availability of drugs offered, payment terms granted, even certain factors such as human nature or relationships that are created between pharmacies and some pharmaceutical warehouse.

From the study, by analyzing the discounts granted by drugs distributors, we conclude their influence to improved financial performance of the studied pharmacy and obtain the information needed to elect a particular distributor.

Very often there is confusion between trade discounts and financial cuts, which has led to an erroneous accounting registration of these reductions.

The confusion between the two can have a negative impact on financial results because incorrect registration and financial trade discounts may amend the operating result and may in the end not present a true and fair view of the financial statements.

## 2. Hypothesis

The aim of this study is to analyze the cooperation relationships between drug warehouses and pharmaceutical entities of a community, identifying the influence of

discounts granted on their financial performance.

### 3. Materials and methods

Community pharmacy discounts were analyzed that were offered by drug warehouses, and the research method that was used recorded turnovers per distributor analysis, retrospective analysis of turnover but also to the discounts granted by them between 2009-2013.

According to the survey the study was conducted on 3 pharmaceutical warehouses that have collaborated with the studied pharmacy.

### 4. Results and Discussion

From the information provided by the pharmacy taken under study, having its main activity, according to NACE classification: Retail sale of pharmaceutical products, in specialized shops, as well as information taken from the annual financial statements, it appears that the amounts representing the trade discounts granted by the distributors of pharmaceuticals influencing a certain extent, turnover and implicitly financial performance, the net profit.

From the files analysis on each distributor, the results showed that the number of fund distributors who provide goods in quantity and structure necessary to meet the patients' demands has declined from year to year.

According to the OMF Nr.1802 / 2004, for approval of the annual financial statements accounting regulations, these provisions appear on the granting of discounts, the recording mode in accounting as well as how they influence the results, the turnover of a pharmaceutical entity [1]. Therefore, the commercial discounts granted by the supplier and the purchase invoice submitted adjusts downwards acquisition cost of drugs.

Trade discounts granted after invoicing, regardless of the period to which it relates, it keeps separate accounting (account 401 "Suppliers" = 709 account "Trade discounts granted" reductions entering the structure turnover (CA) of the pharmaceutical unit.

Trade discounts can be granted in the form of:

1. - rebates- received for quality defects and practice on the selling price

2. - remises - are received for the higher sales volume agreed on or if the buyer has a preferential status;

3.- risturns - are discounts that are calculated on all transactions made with the same third party, during a given period.

Financial discounts granted as settlement discounts granted for payment before the normal term debt are outstanding.

Financial discounts received from suppliers represent income in the period regardless of the period to which it relates (account 767 "Income from discounts obtained"), whereas for the supplier, these rebates represent expenses in the period, regardless of the period to which it relates (account 667 "Expenses on discounts granted").

The commercial and financial discounts mentioned above are negotiated by drug dealers as a percentage of the sale price and are detailed in trade agreements, based on agreed conditions (amount to which it applies, delivery time, payment term and the billing term).

In the commercial relations of the pharmaceutical market we meet several types of discounts or bonuses.

Thus, in practice can meet to achieve volume discounts and reductions procurement, better say bonuses for activities to promote products of merchants, for example advertising in stores, opening new store, advertising in catalogs and magazines, preferential positioning on the shelf.

These two types of discounts (discounts versus bonuses) differ for several reasons (billing mode, method of calculating and recording in accounting, etc.).

The only reduction to achieve volume acquisitions is considered commercial reduction, while promotion bonuses are treated as advertising or promotion services.

This distinction (commercial reduction versus bonus) is very important and must be done from the beginning to apply adequate accounting and tax treatment.

Law no. 571/2003 regarding the Fiscal Code ("Tax Code") specifies that "taxable income is calculated as the difference between revenues and expenses from any source in order to achieve revenue of a fiscal year, net of non-taxable income and

deductible expenses. When determining taxable income there are taken into account other similar items of income and expenses according to the implementing rules ". [2]

Besides the general rule for calculating the taxable profit the “Tax Code” does not mention distinct tax treatment of commercial and financial cuts, consequently they will be considered deductible or taxable profit tax if

they are clearly mentioned in the commercial contract between the parties.

Based on the data analyzed and presented in the table below, according to the annual financial statements in the period 2009-2013 shows that the analyzed pharmaceutical entity turnover (CA) was influenced by these trade discounts granted to distributors of drugs. [4]

TABLE no. 1 The financial ratios made between 2009-2013

Name indicators	2009	2010	2011	2012	2013
FIXED ASSETS - TOTAL	307565	308061	304431	373885	316933
ASSETS - TOTAL, of which:	3091717	3275962	3645352	3704672	5344485
Stocks (goods)	1567834	1637211	1674469	1316981	1413316
Receivables	1418947	1575624	1626340	2234421	3575782
Cash and bank accounts	104936	63127	344543	153270	355387
DEBT - TOTAL	3189177	3144041	3731523	3943439	5468963
CAPITAL - TOTAL, of which:	210105	439982	218962	135118	193191
Paid subscribed capital	200	200	200	200	200
Net turnover (CA), of which:	4958833	5000703	3856092	3462195	8064711
- Trade discounts granted (709)	<b>135423</b>	<b>213122</b>	<b>219112</b>	<b>123214</b>	<b>201410</b>
- Share in CA trade discounts (%)	<b>2,73</b>	<b>4,27</b>	<b>5,67</b>	<b>3,56</b>	<b>2,50</b>
TOTAL REVENUE	5095799	5227689	4090921	3628574	8293420
TOTAL EXPENSES	5023913	4866715	4104081	3728008	8201099
Profit or loss before tax (a)					
-Profit	71886	360974			92321
-Loss	-		13160	99434	
Profit / loss net (a) of which:					
-Profit	60017	302847			41969
-Loss			33518	99434	
Average number of employees	16	16	<b>16</b>	<b>18</b>	<b>14</b>

Source: Financial statements of the pharmaceutical entity, own processing

From the sheets analysis of the main distributors who ensured the entity a drug stock, it appears that they are part of the most famous distributors who operate on the pharmaceutical market in Romania, as revealed in the following table (Table no. 2)

Table. 2 Top 10 distributors of drugs on the Romanian market (2013)

Nr. Crt.	Distribution company	Turnover (mil. euro)			Group affiliates
		2011	2012	2013	
1	Mediplus	637,2	706,2	738,4	A&D Pharma- Sensiblu Pharmacies
2	Farmexpert	429,8	460,9	510,4	Alliance Healthcare Deutschland-Alliance
3	Polisano	293,9	294,3	331,3	Familia Vonica
4	Farmexim	229,5	251,8	291,3	Ovidiu Buluc
5	Fildas	220,6	250,3	290,0	Anca Vlad
6	Europharm	481,8	238,5	205,5	GlaxoSmithKline
7	ADM Farm	184,5	172,4	157,7	Enterprise Countexpert
8	PharmaFarm	71,4	83,8	103,2	Gedeon Richter

9	Romastru Trading	84,6	97,9	101,3	Pfizer
10	A&G Med Trading	85,2	86,7	79,7	Ravena LLC
	Total top 10	2720,30	2642. 8	2.300,0	-

Source: Generic Drugs Manufacturers Association of Romania (APMGR)

The cumulated turnover of the top ten players on the Romanian market distributors of pharmaceuticals in 2013 amounts to about 2, 3 billion euros, down from the previous period.

Regarding the distributors of drugs business, we can say that their market will consolidate in the next period and that their number will be reduced to 3- 4 big players which will impose on the market. In reality there is an anomaly in the local market, meaning that there are so many warehouses authorized, given the relatively low price of drugs applied in Romania. The reason for this is exports to other countries. Parallel export volume ranged between 450 and 600 million euros in 2012, and these drugs are imported at low prices in Romania and will be exported at higher prices in Europe. Some distribution companies are set up for parallel export of drugs.

The analysis of sales rebates granted by medicine distributors' pharmaceutical unit analyzed, shows that they differ depending on the quantity purchased, the payment deadline, the mode of delivery of drugs (OTC / Rx). [6]

On the other hand, if the drugs were obtained without a prescription (OTC), in the studied pharmacies, the trade discounts varies from 0.4% (Pharmafarm), 3.68% (Europharm) to 12.47% (Farmexim).

Following an investigation conducted by the Competition Sectorial on drug distribution system it was found lately, that the system has changed. This investigation was conducted at the initiative of several drug manufacturers who have expressed their intention to switch from classic distribution model developed by several distributors, to the distribution pattern performed directly by manufacturers or by a small number of distributors. [3]

The study findings showed that if there exists only a single distributor on the market, the discounts received from the manufacturer will not be transferred to the pharmacies. Taking in consideration that the number of distributors has decreased greatly (from 10 to

3 -4 distributors), they continue to provide pharmacy discounts, but lower than before the system changed.

According to this study, two cases have emerged to change the distribution system, the first one at the GlaxoSmithKline - "direct-to-pharmacy" and the second at the Pfizer - "restricted distribution".

If the first case regarding the system-direct-to-pharmacy, GlaxoSmithKline decided that three drugs, Avodart (BPH), Seretide (asthma) and Tyverb (breast cancer) may be distributed only through its dealer Europharm. These three drugs were initially distributed by 10 distributors, from which 3 of them transferred a part of the discount granted by GSK to pharmacies, one did not offer any discount for any of the products to pharmacies, two pharmacies offered discounts only exceptionally, one transfer a small portion of the discount received by pharmacies and the last one, a wildcard dealer, transferring most of the discounts received to pharmacies.

After the implementation and introduction of Direct-to-Pharmacy system, the distributor, Europharm, received producer discounts similar to those received in previous years, but they are no longer transferred to pharmacies. Therefore, eliminating competition with other suppliers, there is no incentive to transfer at least part of the discount received from the manufacturer to the pharmacy, which will directly influence the level of turnover and therefore the financial performance of pharmacies.

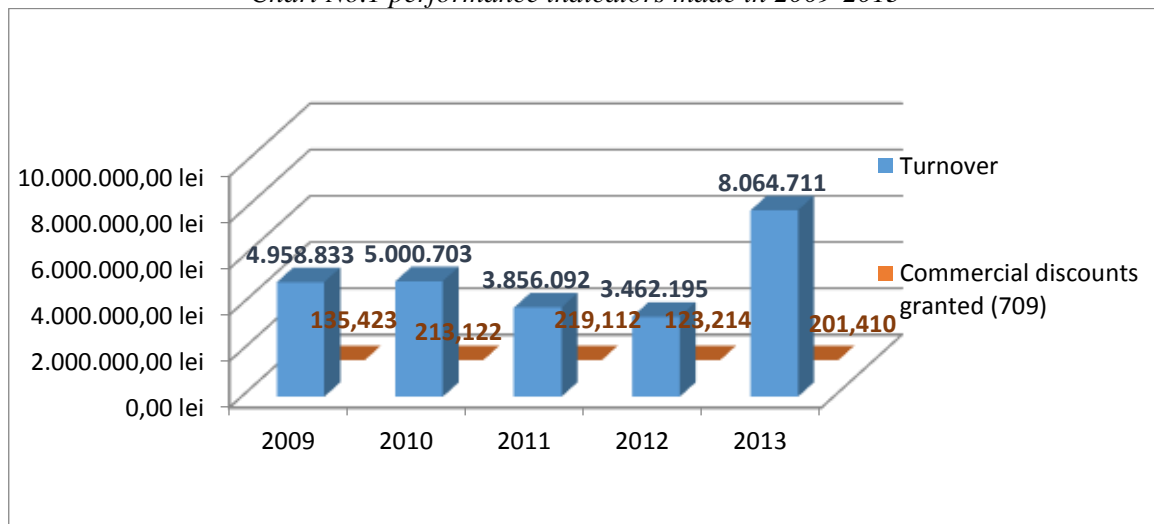
In the case of the second distribution system, Pfizer turned to restricted distribution, distributors such as Farmexpert, Mediplus and Romastru for three drugs: Diflucan (invasive infection), Ecalta (invasive candidiasis) and Vfend (antifungal). These medicines were distributed by ten distributors, who were not required to submit bank guarantees and enjoy various discounts by the producing company. Distributors transferred to the pharmacy

discounts received from Pfizer and, in most cases, some of its own distribution margin.

After its introduction, the three distributors selected following a tender must submit a bank guarantee and the obligation to deliver drugs within 24 hours of placing the order and deliver to hospitals, even if they are late payers. Sectorial analysis results on

the distribution of drugs, materializes and confirms the results obtained from studies conducted in the community pharmacy analyzed, meaning that the sales rebates in the period 2009-2013 continuously decreased, as well as their share in the performance indicators realized in this period.

Chart No.1 performance indicators made in 2009-2013



Source: financial statements of the pharmaceutical entity, own processing

As seen in Chart 1, it shows that if you compare the sales rebates received from suppliers of goods with the net result of each year in hand, one can conclude that they have favorably influenced the level of the turnover and the achieved profit.

Since the distributors have the same discounts from the manufacturer, the medium discounts that were sent to pharmacies, after the implementation of the new system were lower than in previous years and in most cases, with a direct influence on the financial performance indicators.

## 5. Conclusion,

Thus, the reductions made in the first half of 2015 to some of the drugs found in the CANAMED (National Catalogue of Medicines) [5] have "suffered" because of the distribution system adopted by several manufacturers, as evidenced not only in the sectorial inquiry conducted by the relevant bodies but also the survey of the analyzed pharmacy.

The study findings made on the pharmaceutical market in Romania indicate

that the use by producers of a restricted drug distribution system, three -four distributors, will affect the level of discounts transferred to pharmacies and thus the profits made by them, as the main resource of development.

Due to the fact that the number of distributors has diminished greatly, the ones that continue to provide pharmacy discounts, but lower than before the system changed reflects in the annual financial statements or in the accounts that record the amount of discounts granted by the suppliers of drugs in turnover and thus in the end result.

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## The Continuity of Conservatism in the Standards Developed by the IASB

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### Abstract

*Accounting conservatism practices provide key tools to help organizations to more effectively identify and manage the risks and opportunities of sustainable development. The conservatism has survived in the accounting for many centuries and despite criticism it appears to have increased in the last 40 years. In our paper we propose to analyze, based on the research literature, implications of accounting conservatism in business sustainability and risks implied by earnings management, to whom accounting conservatism responds.*

**Keywords:** accounting conservatism, sustainable businesses, earnings management, accounting standards

**JEL Classification:** M410

### 1. Introduction

In the early twentieth century, the process of globalization and internationalization of firms was mainly due to the development of trade and the ability to invest directly in any other country. Information represented the most important catalyst for globalization with its main features: speed, quality and performance. Currently, the speed of information exchange provides an irreversible character for globalization. Capitals and information movement lie at the base of sustainable businesses, financial control practices and changes intervening in competition game in the various markets. An important source of financial information is the financial reports prepared and published by enterprises at the end of financial year. Information provided by the financial reporting underlie the decisions of the potential investors, financial and commercial creditors, competition etc.

Therefore, to support and promote businesses and for good function of markets, financial reports must be of high quality and internationally comparable. To this end, beginning with the last decades of the twentieth century, we witnessed a process of harmonization and standardization of financial reporting worldwide. International Accounting Standards Board (IASB) has developed a set of accounting rules addressed to the big firms: International Financial Reporting Standards (IFRS). Gradually, this set of rules have been adopted at EU level and imposed on all enterprises whose securities are admitted to trading on a regulated market. So far, all listed European companies prepare financial reports according to IFRS. Unlike harmonization of financial information, which is a flexible process intended to reduce major differences between financial reporting practices, normalization aims to develop identical rules and uniform financial reporting practices applicable in the same geopolitical space.

In any system of accounting normalization, evaluation of the components of the enterprises assets is the most important and the most controversial chapter. In 1939, in their papers, Stephen Gilman and Kenneth MacNeal presented two opposite currents of valuating the enterprise assets [1] and [2]. Each of them felt that "the chief function of accounting is to assist management in making wise business decisions" and tried to answer "the economic crisis of recent years", proposing argued solutions. The difference between the two authors is reflected in asset valuation bases proposed by each of them: Stephen Gilman remains faithful to historical cost and Kennet MacNeal promotes current market value. Stephen Gilman calls perpetuation cost values for all assets useful and believes that the accounting convention that inventories should be stated - at the lower of cost or market values induces distortions and is unconservative and "asset

revaluation is meaningless" [1]. MacNeal believes that financial reports "prepared on the basis of present economic values, would supply to . . . groups at interest information of more value " and that each asset should be presented to the "current market value as of the date of the statement" and the value of an asset is "its logical price under the ratio of supply and demand that actually exists" [2].

International Financial Reporting Standards (IFRS) adopted in the European Union, are under Anglo-Saxon influence, being characterized by an exclusively economic approach and an orientation to the financial market consisted of investors. So IFRSs primarily respond to the financial information requirements of investors. And investors want to have a more realistic image of the enterprise whose shares they bought or intend to buy. Although they imposed "true and fair view", considering that prudence is a complement of the true image, initially, IASB displayed it in its conceptual framework as a qualitative characteristic of financial statements. However, in the new "Conceptual Framework for Financial Reporting" - adopted by the IASB in 2010 (and simultaneously adopted by the Financial Accounting Standards Board - FASB), "prudence" hasn't been displayed either as an objective of IFRS or as a feature of the financial information quality. They give up displaying prudence and the focus moves on the neutrality of the financial information and lack of errors, since they believe that neutrality better serves the 'true and fair view' requirement. We mention that in choosing this IASB option the evolution of the capital market in the last years had also an important role. If at the beginning of the development of international standards, enterprises in the continental Europe were financed mainly by bank loans, in the last years, the capital market has gained much importance. And prudence characterizes lending the best, while 'true and fair view' meets informational needs of investors (shareholders). Ray Ball et al, [3], [4] and [5], investigated the question of which of the two categories of interest outweighs for an enterprise in its need of sustainable business. Initially, they thought that financial reporting should be directed to 'true and fair view', since dissipated shareholders (investors) have no other source of information, while lenders can meet their

information requirements through a good relationship with managers. Later, however, it was found that conservatism is really called for both lenders and investors, because "Prudence means including a degree of caution in the exercise of judgments needed to make estimates required under conditions of uncertainty, so that the assets and income are not overstated and liabilities and expenses are not understated" [6].

We see therefore that conservatism is considered indispensable both by lenders and shareholders. In these circumstances we wonder if IASB indeed renounced conservatism and if accounting conservatism did not manifested in 2013, in the financial reports prepared by sustainable businesses.

In the second part of the paper we present accounting conservatism: definition, forms, how it influences sustainable business. In the third part of the paper we present how earnings management affects sustainable business, and in the fourth part we discuss from theoretical point of view the continuity of conservatism in the standards developed by the IASB.

## 2. The Accounting Conservatism

Ross Watts [7], shows that at the origins of accounting is contracting and contracting itself implies conservatism. Therefore, the author places the origins of conservatism in the early trade relations, that is thousands of years ago. Sudipta Basu [8], shows that still since the 15th century there is evidence of conservatism in commercial partnerships. Ross Watts [9], argues that there is empirical evidence that in the last time (about 30 years), accounting practices have chosen conservative treatment, despite the fact that the IASB, for example, has excluded from its language and conceptual accounting framework, the term of prudence, and have not used either that of conservatism.

Whereas the forms of manifestations of conservatism are many and various, the explanations of conservatism vary also from one author to another. In Statement of the Accounting Principles Board no. 4, [10], conservatism is explained by the choice of managers, investors and accountants for understatement of net income and net assets even if they suppose to accept any eventual errors. The same idea is taken over also by

Gerald Feltham and Ohlson James [11] and [12], who define conservatism "as the existence of a persistent understatement of the book value figure with respect to market's valuation of the firm." They argue this persistent understatement of the book value through the fact that expected rates of economic depreciation are higher than the impairment rate, which determines that the market value of the company will exceed its book value.

Juan Manuel García Lara and Araceli Mora [13], quote Ahmed Riahi Belkaoui 1985 and show that accounting conservatism supposes that "the lowest values of assets and revenues and highest values of liabilities and expenses have to be reported." Continuing this idea, Ross Watts [9] and Dan Givoly et al. [14], explain how an important consequence of conservative accounting is persistent understatement of net asset values relative to their economic value.

Sudipta Basu [8], considers that conservatism determines the reflection of bad news faster than good news in the financial reporting of enterprises. In other words, reported earnings respond quickly to bad or completely more news than good news.

Two types of conservatism are distinguished in the literature: conditional conservatism, according to whom the company's behavior is dependent by news content (ex post conservatism); and unconditional conservatism, according to whom the company's behavior is independent by news (ex ante conservatism). Unconditional conservatism implies understatement of assets irrespective of the direction of news and is largely determined by accounting regulations, especially fiscal [15].

The conservatism can be explained by contracting, litigation, taxation, and regulation. Watts and Zimmerman [16], suggest the importance of contracting costs to explain accounting practice. In 2003, Ross L. Watts, published two articles explaining and debating conservatism [7] and [9]. He shows how conservatism responds to some needs of security of all users who receive asymmetric information published by companies, although he accepts that in the conservatism the opportunistic behavior of management can be included [9]. By contracting conservatism actually tries to oppose

opportunistic managerial behavior of big companies, respectively accounting information management. So, conservatism actually increases company's value, by the message of trust in accounting information it sends. On the other hand, overstatement of net assets would result in litigation costs higher than net asset understatement, therefore adoption of a conservative behavior reduces litigation costs with big companies. Another determinant of conservatism is the level of taxation which may influence financial statements. Finally, accounting conservatism is determined also by the political costs of stimulating accounting regulatory authorities. Ross L. Watts [7] and [9], says that actually, all the four determinants of conservatism show big firms' aversion to opportunistic payments to third parties and managers and to accounting information management and that the four factors are not independent.

Xinrong Qiang [17] shows how conditional conservatism may be caused by contracting and litigation and unconditional conservatism may be caused by litigation, taxation and regulation. So the two forms of conservatism meet some different needs of companies and yet the existence of unconditional conservatism determines reducing conditional conservatism. Under these conditions, the author says, compromise appears. In addition to Xinrong Qiang [17], Juan Manuel Garcia Lara, Beatriz Garcia Osma and Fernando Penalva [18], demonstrate how conditional conservatism can be determined also by taxation and regulation. In addition, they show that sometimes the manipulation and transfer of profits toward periods of lower taxes is stimulated by incentives, taxation and regulation. Typically, managers adopt appropriate strategies to maintain managerial incentives.

### **3. The Earnings Management**

All the papers we have considered treat the influence of various institutional features, organizational or otherwise, on accounting conservatism. Among these, earnings management is one of the most controversial features. Ross L. Watts shows that of course, there is an important connection between

earnings management and accounting conservatism [7].

Earnings management aims at exerting influence on the preparation of financial statements to mislead users of accounting numbers on company's performance [19], and in order to get private gain. Authors like Michael D. Akers, Don E. Giacomino, and Jodi Gissel [20], show that in almost all the entities, the short-term earnings are being managed. David Burgstahler and Ilia Dichev [21], ascertain that empirical evidence shows that in order to avoid losses and to report increases in results, there are several motivations and strong incentives. Thus, managers often recognize the importance of increase of earnings and that there are strong incentives for increasing the earnings for longer and uninterrupted periods. When periods of growth of results are interrupted, the premium is eliminated or substantially reduced. More over, they demonstrate that 8-12% of companies with decreases of pre-managed earnings report increases of earnings, and 30-44% of firms with easily negative pre-managed earnings report positive results. In these conditions, earnings management weakens the quality of profit indicators and of financial statements [22], and accounting conservatism affects downward earnings manipulation.

On the other hand, the effects of conservatism are more widespread Ross L. Watts and Hanna J.D., cited in Ross L. Watts [7], shows that earnings management can not explain the systematic understatement of net assets, which is the main manifestation of accounting conservatism. In addition, earnings management may weaken the reliability of financial reporting [23], while accounting conservatism usually has the opposite effect.

Juan Manuel Garcia Lara, Beatriz Garcia Osma and Araceli Mora [13], show that earnings management practices have affected in time studies on accounting conservatism. They studied the level of earnings conservatism in code-law and common-law based accounting regimes. Ball et al. [3], point out that in these two regimes, the economic role of financial statements is different. Typically, financial statements must meet at least the informational requirements of the most important categories of users. Thus, if in continental

Europe, the financial statements meet the requirements of creditors, in the United Kingdom, the financial statements meet the requirements of shareholders and capital markets. In addition, legislative and institutional approach of litigation differs in common-law and code-law based accounting regimes. Consequently, managers' position to litigation is also nuanced. Whatever the managers' desires for big bonuses are, their practices are tempered differently in the countries based on common-law countries and countries based on code-law.

In their study from 2004, Juan Manuel García Lara and Araceli Mora [3], did not find significant differences between common-law and code-law based accounting regimes related to earnings conservatism. They expected that continental accounting (code-law-based countries), based on loans as a form of financing, would use more practices of balance sheet conservatism and less practices of earnings conservatism. In their assumptions, it did matter that creditors are usually represented in the boards of companies. In this position, lenders can pursue repayment of loans and can influence both managers' decisions and regulators, to understate shareholders' equity. They also expected that the accounting of the United Kingdom (common - low based countries), where firms' ownership is spread over a wide number of shareholders, would use more practices of earnings conservatism. However, in terms of earnings conservatism, no significant differences were found between common-law-based countries (UK) and code-law-based or continental countries; only in respect of Germany, they have found such statistically significant differences. In addition, their results show that the balance sheet conservatism influences earnings conservatism by reducing it [24] and [25].

#### **4. Conclusions**

Returning to the reason of IASB to renounce conservatism, Paul André, Andrei Filip and Luc Paugam [26] and [27], show that actually renouncing the display of prudence, IASB renounced just to unconditional conservatism, and not to the conditional conservatism. They show that in the end, fair value cannot be considered less conditionally conservative than amortized

cost. Prudence is still found in many accounting standards developed and revised by the IASB, such as non-recognition of contingent assets, recognition of probable debt (through provisioning), valuating stocks at the lower of cost or net realizable values, promoting impairment of fixed assets or impairment for fixed assets. Registration of adjustments for impairment of assets is the accounting treatment representative for conditional conservatism. However, the registration of revaluation of property, plant and equipment is also accepted as an accounting conditional conservative treatment, even if it allows the increase of carrying amount of an asset, because they use revaluation only when the market value changes in relation to the carrying amount of an asset and the difference of the value resulted from revaluation is found in other comprehensive income. Acceptance of revaluation of property, plant and equipment as a conditional conservative treatment meets the requirement of conservatism to not deliberately understate assets and revenues and to not deliberately overstate liabilities and expenses. Revaluation of property, plant and equipment is accepted as an accounting conditional conservative treatment, even if it is less conservative than registration of adjustments for impairment of assets. Therefore IFRS remain further more conservative than it is recognized because accounting conservatism has profound implications for business sustainability and responds to risks arisen from earnings management.

## 5. Acknowledgements

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# Accounting Conservatism - An Argument for Sustainable Businesses

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## Abstract

*In our paper we propose to analyze implications of accounting conservatism in business sustainability. We realized an empirical study on companies listed in Romania in the context of the adoption of IFRS.*

**Keywords:** accounting conservatism, sustainable businesses, earnings management, accounting standards

**JEL Classification:** M410, M310

## 1. Introduction

Accounting conservatism practices provide key tools to help organizations to more effectively identify and manage the risks and opportunities of sustainable development. The conservatism has survived in the accounting for many centuries and despite criticism it appears to have increased in the last 40 years.

Juan Manuel García Lara and Araceli Mora [1] and Paul André, Andrei Filip [2] explain in their paper that in the literature there are two approaches to accounting conservatism: the traditional, belonging to continental Europe, in which the main source of financing enterprises was for a long time the credit (code law countries); and a newer approach, appropriate to states with Anglo - Saxon accounting, in which the main source of financing is the capital market (common law countries).

The traditional approach regards accounting conservatism as being persistent underestimation of net asset, which means that the carrying amount of the net asset is permanently lower than its carrying amount and is called balance sheet conservatism. Juan Manuel García Lara and Araceli Mora [1], quote Ahmed Riahi Belkaoui and show that accounting conservatism supposes that

„the lowest values of assets and revenues and the highest values of liabilities and expenses have to be reported”. The other approach, explained and promoted by Sudipta Basu [3], regards „a timelier recognition of bad news in earnings relative to good news” and is called earnings conservatism.

## 2. Empirical Study

Given the positive association already demonstrated in the literature, between conditional conservatism and sustainable businesses, we aim to find out if the companies listed on Bucharest Stock Exchange, really use practices of accounting conditional conservatism and which are these practices.

Our research is empirical, based on observation of financial statements prepared by listed companies and is qualitative, whereas it is useful to understand the way of manifestation of accounting conditional conservatism in financial reports disclosed by sustainable businesses.

We mention that currently, there are 80 companies listed at the Bucharest Stock Exchange and they were required to prepare financial reporting under IFRS for a period of 3 years (2011, 2012, 2013). In these circumstances, we can not achieve a mathematical model to demonstrate and measure the positive relationship between accounting conservatism and sustainable businesses. On the other hand, studies demonstrating the existence of a relationship of determination between conditional accounting conservatism and sustainable businesses were conducted and presented previously by professional accountants. But so far we haven't met a study to investigate how the conditional accounting conservatism manifested within companies with sustainable businesses.

In Romania, the mandatory application of IFRS by listed companies was imposed by

the legislature setter, through Order no. 881/2012 [4]. The manner of applying IFRS was regulated by Annex to OMPF 881/2012 and Order no. 1286/2012 [5].

From 80 companies listed in 2015, in our study we considered only those companies that have recently proved sustainable businesses. As indicators for determining economic growth, we used earnings per share (EPS) because it has been used in many previous studies for determining and measuring conservatism [3], [6], [7]. Therefore, in our study we considered only the companies who each year from 2011 to 2013 registered  $EPS > 0$ , who numbered 21 companies. With one exception, the auditors expressed unqualified audit opinions on the studied companies.

For each company that participated in our study, we hand-collected accounting data using financial reports presented on the website of Bucharest Stock Exchange. We considered the most recently prepared financial reports - those for 2013. We mention that by the time of preparing this paper, the financial reports for the year 2014 were not presented on the website of the stock exchange or individual sites of companies.

For delimitation of the accounting practices that we shall follow in our study, we considered the traditional definition of conservatism, called balance sheet conservatism, which regards permanent undervaluation of net assets. We considered this approach because we believe that Romania is still characterized by poor development of the capital market and a stressed development of the bank loans market. In this respect, Niculae Feleagă and Ion Ionașcu [8], showed that the dominant items of the accounting system in Romania from last 20 years are valuation at historical cost and prudence. Of course, we hope that as in the continental Europe in the recent years, a capital market developed, also in Romania, enterprises will partially give up bank lending to the good of other funding sources.

Among conservative practices rediscovered in IFRSs and which are most often used by companies, we focused on recognizing provisions and registering adjustments for assets impairment. We mention that none of these accounting practices is new to Romanian accounting

environment, they are rediscovered in the previous national accounting regulations, afferent to listed companies. Also, these two categories of accounting practices are presented too in the national accounting regulations applicable to smaller, unlisted companies.

#### Hypotheses

To determine whether firms which in the recent years have been considered sustainable businesses, have prepared financial reports in the context of conditional accounting conservatism, we had into view the traditional definition of conservatism, called balance sheet conservatism, respectively the definition asserting that conservatism "means that the highest values of liabilities and expenses should be reported ....." [1]. And in order to demonstrate the application of accounting conservatism by firms in the sample studied, we focused on the recognition of provisions in financial reports prepared by companies who have been considered sustainable businesses, because registering the settle of provisions supposes both the increase of the liabilities and the increase of the expenditures, too.

International Accounting Standards 37 Provisions, Contingent Liabilities and Contingent Assets, establishes the definition of a provision as a "liability of uncertain timing or amount" and requires that all the following conditions be fulfilled before a provision can be recognized: "an entity has a present obligation; it is probable that an outflow of resources embodying economic benefits will be required; and a reliable estimate can be made of the amount of the obligation".

Given that in the accounting regulations in Romania, provisions are included since 1993 - the year of taking over the first foreign accounting system after using Soviet accounting system, we believe that the settle of provisions is a practice well known by accountants in Romania, so that they are sensitive to the need of provision settlement.

On the other hand, we show that in Romania, from taxing point of view, the expenditures for recognition of provisions are not expenditures deductible from the tax base. Exceptions to this prevision are only provisions for guarantees of good execution granted to customers. Therefore, recognition of provisions in the accounting leads in



general to increasing profit tax due to the state budget by businesses.

However, given the longstanding practice of recognition of provisions in accounting, we believe that in the firms from the sample, accounting judgment had a word to say. Therefore, we assume the following hypothesis:

H1. In the accounting of listed companies, which in the recent years have presented economic growth, conditional conservative accounting practices have been used: provisions have been recognized and settled. We also believe that the destination of these provisions hasn't strictly circumscribed to afferent categories whose expenses for recognition of provisions are expenses deductible from the tax base.

To determine whether companies who have been considered sustainable businesses in the recent years, have prepared financial reports in the context of accounting conditional conservatism, we had in view the same traditional definition of conservatism, called balance sheet conservatism, respective the definition according to whom conservatism allows persistent understatement of net asset, which supposes that „the lowest values of assets and the highest values of expenses should be reported” [1]. This time, to demonstrate the application of accounting conservatism by companies in the studied sample, we have focused on highlighting the adjustments for impairment of assets by companies that have been sustainable businesses, whereas their registration in accounting involves both reducing assets and increasing expenses.

IAS 36 Impairment of Assets prescribes the procedures that an entity applies to ensure that its assets are not carried at more than their recoverable amount. The recoverable amount is the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognize an impairment loss. (IAS 36, Objective).

Regarding fixed assets, IAS 16 Property, Plant and Equipment mentions two accounting treatments: the cost model and the revaluation model (IAS 16, para. 29). Cost model implies that "after recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any

accumulated impairment losses." (IAS 16, para. 30) Since this model involves reducing the value of assets and increasing afferent expenses on response to internal or external events of the company, we consider this model of valuation implies conditional accounting conservatism. The revaluation model assumes that after recognition as an asset, an item of property, plant and equipment shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses (IAS 16, para. 31). The fair value of property is its market value (IAS 16, para. 32). We note that in this case, the fair value substitutes the cost of property, plant and equipment.

On the other hand, IAS 36 Impairment of Assets is not applied to inventories. IAS 2 Inventories provides guidance on the determination of any write-down to net realisable value (IAS 36, Objective). Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale (IAS 36, para. 6).

In Romania, in terms of tax, expenses afferent to registration of impairment losses are not deductible from the tax base for income tax determination. Therefore, recording in the accounting the adjustments for assets impairment leads in general to increasing income tax which enterprises owe the state budget.

Given the discrepancy between the development of the capital market and the development of banking market, and the predominance of a prudent attitude of professional accountants in Romania, we consider the following hypothesis:

H2. In the accounting of listed companies, who in the recent years have shown economic growth, representative practices of conditional accounting conservatism have been used: adjustments for impairment of assets have been registered. In the case of property, plant and equipment, companies have preferred the conservative treatment of the cost model (which involves recording the adjustments for impairment) instead of the revaluation model.

Empirical findings

Analyzing financial statements prepared by the companies included in the studied sample, we found that most of them have settled provisions. The destination of the provisions settled by companies is shown in further (table nr. 1):

*Table no. 1 Provisions settled by listed companies that have presented economic growth*

Destination of provisions settled by companies:	Firms (no)	Firms (%)
Guarantees granted to customers	3	6
Litigation	5	10
Staff participation in profits	9	18
Decommissioning tangible	2	4
Pension	5	10
Restructuring actions	1	2
Taxes	1	2
Impairment of inventories	1	2
Impairment of customer receivables	3	6
Other provisions of which provisions of destination:	10	20
Environment	2	
Term contract	1	
Certificates of emissions of greenhouse gases	1	
Annual leaves not taken	1	
For risks and charges	5	
Total provisions settled in all the companies	50	100
Non settlement of provisions	1	

Own sources.

We note that in 2013, 20 companies of 21 settled provisions to various destinations. In total, in all companies 50 provisions were settled. Most provisions were settled for staff participation in profit (18%, 9 entities), for ongoing litigation (10%, 5 entities) and for pension (10%, 5 entities). 20% of companies (10 entities) settled provisions to various destinations related to environment, contract term, and other risks and charges. Other destinations for whom provisions were settled and which are unsettled with the tax deduction, were dismantling tangible assets (4%, 2 entities) restructuring actions (2%,

one entity) and taxes (2%, one entity). Only 6% of companies (3 entities), settled provisions for guarantees to customers, for whom the tax regulation provides deductibility of afferent expenses.

We note that in Romania, both tax regulation and companies make confusion between provisions and adjustments for impairment of trade receivables. Thus, the Law no. 571 /2003 [9], article 22 shows deductibility of expenses related to provisions constituted over claims on customers, ignoring the fact that the impairment of an asset is registered into accounting as an adjustment for impairment and no provision is settled, since depreciation of a claim does not involve increasing a debt exigible or with uncertain value. Of the companies surveyed, three settled provisions for depreciation over claims on customers, and one of them settled also provisions for impairment of inventories.

Taking into account that of the 21 companies in the sample, 20 recognized and settled provisions, we believe that they used accounting conditional conservatism practices. In addition, we found that most of settled provisions (88%) had no connection with the fiscal provision related to deductibility of afferent expenses. Correlating these results, we consider that the hypothesis:

H1. In the accounting of listed companies that in the recent years have shown economic growth, accounting conditional conservatism practices have been used: provisions have been recognized and settled. We also consider that the destination of these provisions has not strictly circumscribed to afferent categories for whom expenses for recognizing provisions represent deductible expenses from the tax base of the profit tax.

was validated.

Analyzing financial statements prepared by the companies included in the studied sample, we found that most of them recorded adjustments for impairment of assets, which are shown in further (table nr. 2):

*Table no. 2 Adjustments for impairment of assets recorded by listed companies who presented economic growth*

Indicators	Firm (no)	Firm (%)
Adjustments registered for:		
- Impairment of intangible assets	5	15
- Impairment of property, plant and equipment	5	15
- Impairment of inventories	10+1	23
- Impairment of receivables	14+3	35
Total adjustments for impairment registered by all the studied companies	48	100
Companies who did not register adjustments for impairment	2	
Revaluation of intangible assets	0	
Revaluation of property, plant and equipment:		
Revaluation of land	5	
Revaluation of buildings and special buildings	7	
Revaluation of all the property, plant and equipment	2	
Total revaluations applied to property, plant and equipment	14	

Own sources.

We note that in 2013, 19 companies of 21 recorded impairment adjustments. In total, in all the companies 48 adjustments for impairment of assets were registered. Most adjustments were registered for impairment of receivables (35%, 17 entities) and for impairment of inventories (23%, 11 entities). Adjustments for impairment of intangible assets (10%, 5 entities) were also registered. 2 companies didn't register adjustments for impairment of assets. We took into account also companies who registered in error, adjustments for impairment of assets as an increase of provisions.

Regarding the treatment applied to property, plant and equipment, we see that five companies applied the conservative treatment of cost model which implies registering adjustments for impairment, but

14 revaluations of property plant and equipment were applied.

Land, buildings and special constructions were mainly revalued.

We explain the companies' option to apply revaluation by a special and permanent need of informational market regarding the fair value of property, plant and equipment. We have in view that in the last 25 years, in Romania, both currency market and property, plant and equipment market characterized by large price fluctuations, a fact that has educated professional accountants to use fair value for this category of assets.

Correlating the presented results, we consider that the hypothesis:

H2. In the accounting of listed companies, who in the recent years have shown economic growth, representative practices of conditional conservatism have been used: adjustments for impairment of assets have been registered. In the case of property, plant and equipment, companies have preferred the conservative treatment of the cost model (which implies registration of adjustments for impairment) instead of the revaluation model.

was partially confirmed.

The first part of the hypothesis was validated, whereas the most companies have used practices of accounting conditional conservatism of registering adjustments for impairment of assets. The second part of the hypothesis was not validated, whereas it turned out that many of the companies do not apply conservative treatment, but apply revaluation of property, plant and equipment - which is also an conditional accounting treatment, but less conservative than the adjustments for depreciation.

### 3. Conclusion

We conducted an empirical study on firms financially sustainable and listed in Romania. We considered two categories of accounting practices representative for conditional conservatism: settlement of provisions and registration of adjustments for impairment of assets.

We found that 20 of the 21 studied companies constituted provisions, of which most were determined by staff participation in profit (18%) and by litigation (10%). In addition, we found that both tax law and some of companies confound provisions for

guarantees granted to customers with adjustments for impairment of receivables - customers.

We also found that 19 of the 21 studied companies have registered in their accounting adjustments for impairment of assets, many of them related to impairment of receivables – customers (35%) and impairment of inventories (23%). In addition, we found that in the case of property, plant and equipment, 14 companies have opted for revaluation and only 5 companies have opted to register adjustments for impairment. In literature, the revaluation of property, plant and equipment is considered an accounting treatment less conservative than the one established (adjustments for depreciation), but closer to fair value, because it allows in certain circumstances, the increase of the carrying amount of assets. Practically, 14 of the 21 studied companies revalued in 2013, a part of their property, plant and equipment. Behold that when they benefit an accounting treatment which allowed proximity to fair value, listed companies did not hesitate to use it.

From the conducted study we found that companies listed and sustainable from financial point of view have intensively used conditional conservative accounting practices. In general, practices of accounting conservatism oppose practices of accounting information management. Therefore, by adopting most of accounting conditional conservative practices, financially sustainable businesses met the security requirements of investors and other users of accounting information. These companies have understood and exploited the conditional conservatism’ potential of promoting companies by the message of trust which their financial reports send. Our study was limited to the financial reports for the year 2013 and a thoroughgoing study of the researched subject requires broadening the sample in terms of period, which we propose to do in a forthcoming paper. We shall also consider other conditional conservative accounting practices.

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## Implications of Taxation on the Accounting of Results in NPOs

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### Abstract

*In our country, the impact of taxation can give birth to controversial problems, which is why the present paper aims to highlight the way taxation impacts the determination and taxation of the result of nonprofit organizations (NPOs).*

*They benefit of exemptions from taxation within certain limits, which determines the realization of some additional works and the consideration of the result-generating elements according to a certain specific, so that the information obtained may be useful in the determination of the result and of the associated tax, if applicable.*

*The study of the fiscal regulations applicable to NPOs has led us to the determination of a practical algorithm according to which the result is established and taxed, an algorithm highlighting the impact of taxation on the accounting in NPOs.*

**Key words:** nonprofit organizations (NPOs), result, taxation, incomes, expenses

**Classification J.E.L.:** M41

### 1. Introduction

Considering that in Romania taxation is very many times controversial and influences the mode of generation of the financial-accounting information, we are asking ourselves whether taxation influences the modality of establishing the results and the tax (if applicable) in nonprofit organizations (NPOs). If the answer is yes, we shall examine how taxation influences accounting.

As their names show, these organizations do not intend to realize a profit, but have charitable purposes, pursuing the proper

progress of the society, irrespective of the domains in which they operate. Nevertheless, the activity they carry out generates incomes and expenses, and the difference between them takes the form of the result.

Taking into consideration the civic goal of NPOs, they benefit of special fiscal regulations when it comes to the determination of the taxable result. These norms require a specific mode of determining the incomes, the expenses and the results.

In order to identify how taxation influences the accounting of results of NPOs, we have studied the legislation into force (including the methodology regarding the application of the norms), we have studied the literature and have observed the practical realities in some NPOs.

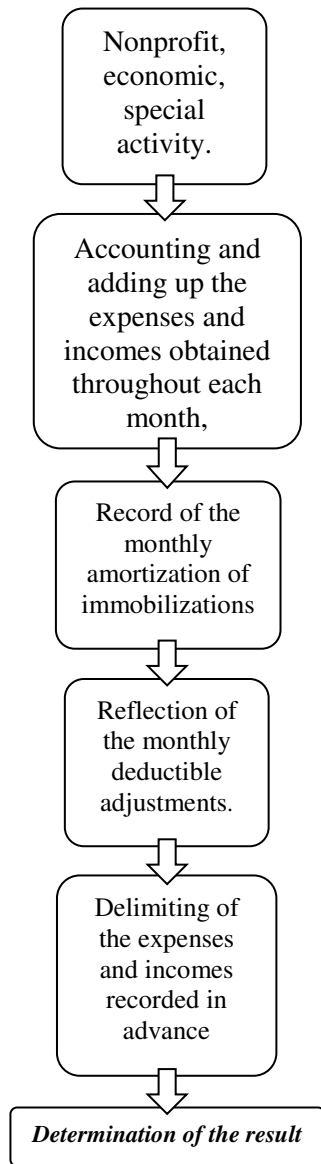
### 2. Determination of result in NPOs

The result recorded at the end of a reporting period is determined, like in any other entity, as the difference between incomes and expenses, irrespective of the day on which they generated or will generate cash flows. In NPOs, the result is calculated for each type of activity carried out: with no patrimonial goal, economic and special activity. Considering the nonprofit character of these organisms, the result is called surplus or deficit, while for the economic activity the name of profit or loss is preserved.

The results are determined every month, after the recording of the incomes and of the expenses and after the month-end accounting procedures, as well as annually, at the end of the reporting period, which period corresponds, in our country, to the calendar year. The monthly determination of the results generates the realization of the works

presented in the scheme below, for each activity type.

Figure 1 – Determination of the result in NPOs

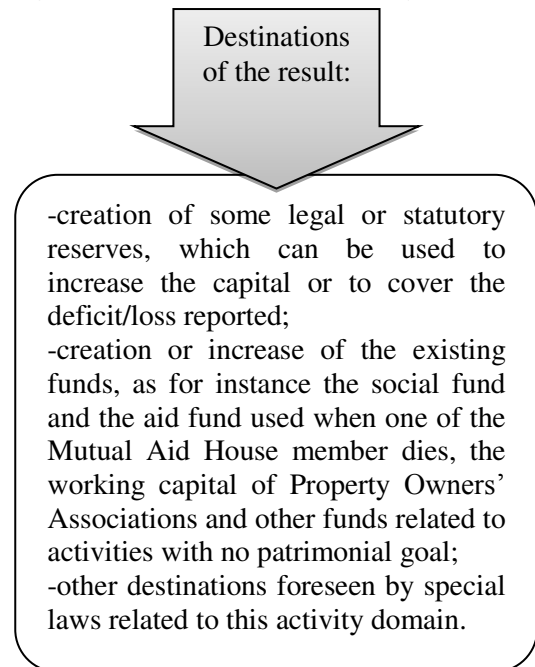


Source: processed after literature [1]

After establishing the result at the end of the period, it is distributed per destinations. It is important to mention the principle of non-repartition of the positive result realized by NPOs. The repartition of the result per destinations – as shown in Figure 2 – is decided by the General Assembly of the Associates, respecting the legal regulations, the repartition being limited only to causes which are the interest of the NPO. Being entities which do not pursue to obtain profit, in NPOs, it is forbidden to distribute of the

surplus as dividends to associates and/or to funding members. Also, the result of the special activity is not distributed, but reported on the next year, being excluded from taxation.

Figure 2 – Possible destinations of the result



Source: processed after the legal norms [2]

As we can notice, the determination of the result is influenced by the activities a nonprofit organization can run:

- activity with no patrimonial (nonprofit) goal, associated to the organization's basic objective;
- special activity, not meant to realize profit, but related to the activity of the organizations of creators from certain cultural domains;
- economic activity associated to the basic activity, generally realized to supplement the funds necessary to the running of the nonprofit activity.

It is necessary to know these aspects, because the fiscal norms concerning the determination of the taxable result take into account these issues, so that the specific of the NPO activities determines the existence of special fiscal norms that can have repercussions on the accounting.

### 3. Fiscal provisions regarding taxation

Regarding the fiscal regime of the tax on profit owed by NPOs, for certain groups among them, by studying the legislation in force, we can mention some specifications concerning the application of exemptions for certain types of nonprofit entities.

*Foundations* – for these, there is the following provision: “The following contributors are exempted from the payment of the tax on profit: (...) the Romanian foundations established as a result of a will.” [3] In the methodological norms of the Tax Code, the foundation established as a result of a will is defined by the definition of the foundation given by GO 26/2000 for associations and foundations, so that this provision shall apply to the foundations established on the basis of this law.

*Mutual Aid Houses*, for which the followings are regulated: “acts and operations of the mutual aid houses of employees, carried out in relation with their activity subject, are exempted from any taxes and charges.”[4]

*The House and Flat Owners' Associations* established as juridical persons and the *Tenants' Associations* recognized as *Property Owner Associations* are exempted from the payment of the tax on profit for the incomes obtained from economic activities and which are used or shall be used for the improvement of utilities and of the efficiency of the building, for maintaining and repairing the common property. [5]

*Religious cults* are exempted from the payment of the tax on profit for the following: incomes obtained from the producing and selling objects and products necessary to the cult activity, according to the law, incomes from rents, other incomes obtained from economic activities, incomes from damages in cash, incomes for building, reparation and consolidation works of the places and of the ecclesiastic buildings, or of the ones for education, for the provision of social services, accredited under the conditions of law, for specific actions and other nonprofit activities of the religious cults.[5]

These dispositions have the goal not to tax something not constituting distributable profit, but being meant to be used in actions constituting the NPOs activity goal.

The tax code governs in detail the taxation of NPOs, enumerating the income types exempted from taxation, namely:

- fees, contributions, registration and admission taxes of members and/or supporters;
- donations and sponsoring;
- incomes obtained from visas, sport taxes and penalties or from the participation in sport competitions and demonstrations;
- dividends and interests obtained from the investment of the liquid assets resulted from the exempted incomes;
- incomes for which a tax for shows is due;
- resources obtained from public funds or non-reimbursable funding;
- incomes realized from occasional actions, according to the NPO's own statute;
- exceptional incomes resulted from yielding corporal assets that are part of the NPOs' property, others than those associated to the economic activity;
- incomes obtained from advertising and publicity;
- incomes realized from damages, from insurance companies for the damage related to own corporal assets, others than those associated to the economic activity;
- amounts received from the income tax owed by natural persons.[6]

Having studied the regulations of the Tax Code, we can notice that the exempted incomes are the ones associated to the activity with no patrimonial goal. We can conclude that regarding the nonprofit activity, NPOs are exempted from the payment of the tax on profit, except for the incomes realized from the sportsmen's transfer, which, according to the Methodological Norms of the Tax Code represent taxable incomes when the taxable profit is determined.

We can notice that the legislator also exempts from taxation the incomes from dividends and the interests obtained from the investment of the liquid assets resulted from exempted incomes, as well as the incomes obtained from yielding (selling) of the corporal assets that are not used in the economic activity. The exempted / excepted character also extends to the incomes “accessory” of the incomes that do not come from the economic activity. In the same respect, in a precise clause, the Supreme Court of Justice of Romania ruled that if the

income sources are non-taxable, the bank interests associated to the deposits set up from such incomes shall also be non-taxable. In another concrete test case, it has been decided by the Supreme Court that, since the incomes have come from amounts received as donation and from the sale of assets received as donation from diverse persons from Romania and abroad, the association that has obtained and used them for the construction of a building for the persons suffering from a locomotive handicap is exempted from the payment of the tax on profit. [7]

The tax code also governs the taxation of the surplus generated in the economic activity carried out. NPOs, union organizations and employer organizations are exempted from the payment of the tax on profit also for the incomes from the economic activities realized up to the level of the equivalent in LEI of EUR 15,000, in a tax year, but no more than 10% of the total incomes exempted from the payment of the tax on profit. NPOs owe the tax on profit for the part of taxable profit corresponding to the incomes, others than the exempted ones, which tax is calculated by the application of the rate of 16%. [8]

#### 4. Modality of determination of the tax and accounting implications

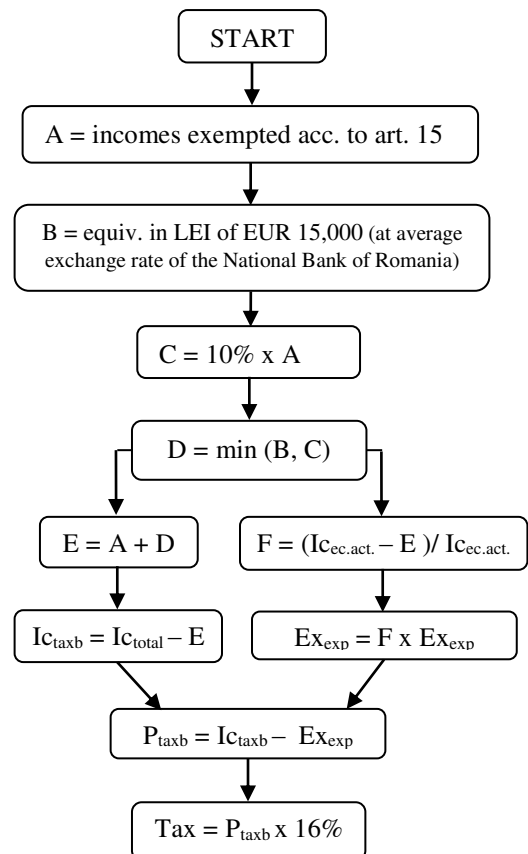
The calculation methodology of the tax on profit for NPOs takes into consideration the regulations presented within the previous paragraph and we shall present it as a scheme in Figure 3.

The calculation algorithm requires:

- determining the exempted incomes (A);
- calculating the equivalent in LEI of the limit of EUR 15,000 (B);
- applying the percentage of 10% for the exempted incomes (C);
- determining which of the two limits is smaller (D);
- adding up the total exempted incomes (E);
- calculating the taxable income ( $I_{c_{taxb}}$ );
- determining a repartition key for the expenses from the economic activity (ec. act.) associated to the incomes exempted from tax of the economic activity (F);

- determining the quantum of expenses from the economic activity exempted from taxes ( $EX_{exp}$ );
- calculating the taxable profit ( $P_{taxb}$ );
- determining the tax on profit, owed by the NPO (Tax).

-Figure 3 – Logical calculation algorithm for the NPOs' tax on profit



Source: projection based on the fiscal norms [7]

Considering the algorithm presented above, we ought to make certain mentions related to two of the algorithm stages, which might raise problems, respectively the determination of a repartition key for the expenses from the economic activity associated to the incomes exempted from tax from the economic activity (F) and then the determination of the deductible quantum of the expenses from the economic activity ( $EX_{exp}$ ), by the application of these repartition keys.

Being reflected in accounting both according to their nature and depending on the activity that has generated them, certain expenses may raise problems. For example, for a fixed asset used both for the activity



with no patrimonial goal (and/or special activity) and for the economic activity, how will the associated expenses be distributed (amortization, maintenance, utilities)? This problem occurs particularly in the small or middle-size organizations, which cannot afford to purchase fixed assets specially intended for a certain activity. The repartition keys of the expenses can be:

- the area used within an activity, from the total net area; the associated area is transposed in percentage, which shall be applied to the expenses to be distributed;
- the period of the month when the asset is used for a certain activity type;
- in case of motor cars, we recommend the use of the number of kilometers travelled for a certain activity from the total kilometers travelled;
- the percentage of incomes generated by a certain activity from the total incomes.

Anyway, we do not recommend the use of the last technique, since, in most cases, the efforts made to obtain the incomes differ from an activity to the other. In the case of an activity with no patrimonial goal, a higher amount of incomes can be generated at the cost of a lower effort than in the case of an economic activity (for the same amount of incomes) or vice versa.

The legal regulations recommend the use of repartition keys for expenses, without requiring certain techniques or procedures. Thus, there occurs the professional reasoning regarding the repartition of the expenses per types of activities. [9]

## 5. Conclusions and suggestions

Due to the fact that foundations are entities with no lucrative goal and which do not distribute the surplus obtained to their founders and/or members, they are exempted from the payment of the tax for the result of the activity with no patrimonial goal.

Since most NPOs that have an economic activity use the resources generated by it for self-funding their activities with no lucrative goal, they benefit of a reduction of the tax owed in connection to the profit obtained as a result of running economic activities.

The accounting regulations into force require the reflection of the patrimonial elements (including the incomes and expenses) associated to the three kinds of

activities, separately, so that the fiscal provisions might be correlated with the accounting ones, as follows: the result of the nonprofit activity and of the special one is exempted from taxation. As for the result of the economic activity, it is reduced by a nontaxable result, calculated as a difference between the incomes from the economic activities exempted from taxation and the expenses associated to them, distributed by means of a repartition key. The incomes from the exempted economic activities amount to a value equal to the smaller one the following: the equivalent in LEI of the limit of EUR 15,000 and 10% of the total incomes from the account of assets without patrimonial goal.

The presentation above respects the Tax Code's requirements regarding the taxation of the surplus of NPOs, according to the simplest approach correlated to the financial-accounting information generated following the recordings of the entity's accounting. This would make it possible to connect the taxation to the accounting, and the relevance of the financial-accounting information would increase, this information being used in the tax determination process.

Thus, fiscal norms have repercussions on accounting since the information generated by accounting is used to determine the taxable result. Considering the partial exemptions, it is necessary to determine separately the result-generating elements, some requiring the use of repartition keys for each activity carried out by an NPO.

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## The Analysis of the Correlation Between the Sources of Funding, Performance and Risk Exposure of a Company

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### Abstract

*The main question of this article is: is there any optimal financial structure, such as a combination of debts and equity that allows maximizing the value of economic asset? In order to highlight the impact of indebtedness on the risk and the performance of enterprises, we conducted a survey based on a sample of 32 companies working in the wholesale trade of building materials. Because they were generally small companies, with a relatively low market capitalization, we chose to opt for the appreciation of their performance by using a classic indicator, from the accountancy field, respectively the Return on Equity, while the risk was calculated by using the Debt-to-assets ratio. The models that were made, focused on determining if there were or not any relationships between the Debt-to-equity ratio and the Return on Equity, and also the Debt-to-assets ratio, based on econometric methods and on E-views software of statistical analysis.*

**Keywords:** performance, risk, financial structure, cost of capital, Debt-to-equity ratio.

**JEL Classification:** L25, G32

### 1. Introduction

If in the 1950s-1960s a good financial structure was represented by a reduced indebtedness, with an emphasis on industrial and financial autonomy of the company, in the 1970s a good financial structure needed to provide a reasonable level of debt compared to the equity. In the 1980s, it was considered that the financial structure of the

enterprise had to be counterbalanced, which meant that debts whose cost seemed to be prohibitive were supposed to be reduced and the financial structure had to be used in a proportion greater than self-financing. Economic growth, low inflation and lowering interest rates in the late 1990s, encouraged the use of borrowing for the acquisitions or capital reductions. In the last period, marked by strong economic and financial imbalances, shifting the financial structure of enterprises with a high level of debt is becoming extremely difficult, which exposes the companies to massive risks of liquidity and solvency.

The policy regarding the structure of the capital requires balancing risks with rate of return. In the traditional approach, there is an optimal financial structure that allows maximizing the value of economic assets due to a rational use of the indebtedness and its leverage effect, so its funding cost (weighted average cost of capital) is diminished. Taking into account the effect of the indebtedness on the financial profitability, indebtedness may be based on capital structure optimization in order to minimize their purchase cost and the growth of financial profitability. [1] The use of borrowed capital in a greater proportion leads to the amplification of the risk, as well as to a rate of return estimated at a greater amount. The increased risk associated with a higher rate of borrowing tends to decrease the market value of the shares of the enterprise, however, predicting a higher rate of profitability leads to an increase of this value. The issues that were presented lead to the conclusion that an optimal capital structure will maximize the value of the enterprise through the achievement of a balance between the degree of the assumed

risk and the expected rate of return, which will determine the maximizing the price of shares. The market value of an enterprise, which firstly uses only its own funds, increases during the use of borrowed capital instead of its own, reaches a maximum level, after which it begins to decrease as the use of borrowed capital becomes excessive. When a company decides to use borrowed funds, an analysis is required to determine the capital structure on which the value of the company is maximum, which means the determination of an objective regarding capital structure.

Contrary to the traditional approach, the theory of balanced markets believes that there isn't an optimal financial structure, the overall rate of return being constant regardless of the degree of indebtedness of the company. According to this approach, the economic value of the asset is independent of its mode of financing or, in other words, weighted average cost of capital is not dependent on the method of financing; in the absence of taxation, capital structure is neutral in relation to the value of the enterprise. Indebtedness will increase total cost, inducing an additional leverage and an increased risk to be borne by the shareholders, they later requiring an increase of the rate of return on own capital so that, overall, the global rate of return remains the same. The rhythm of increase in the cost of debt is greater than the cost of equity, because, as debt levels increase, a part of the risk of enterprise is taken over by creditors; weighted average cost of capital remains constant. On an efficient market, increasing the estimated profitability generated by the leverage of the indebtedness leads to an increased risk, so that the price of the share does not change.

## **2. The typology of studies that test the effect of indebtedness upon performance indicators**

Although the theorem of Modigliani and Miller [2] suggests that the financial structure of the enterprise has no influence upon its value, numerous subsequent studies have raised arguments in favor of non-neutrality of the financial structure, in particular on the existence of a relationship between indebtedness and enterprise performance.

In addition to the theoretical approach of this issue, in literature we find a reduced number of empirical studies related to the relationship between the rate of indebtedness and the performance of the enterprise. The main difference between these studies relates to how to define performance. Some studies use the accounting measure of performance. Majumdar and Chhibber have tested the relationship between indebtedness and performance on a sample based on Indian companies, using return on assets as a measure of the performance; a significant negative relationship between these variables could be seen. [3] Johnson established the existence of a negative relationship between profitability and borrowing rate. [4]

Pushner analyzed the relationship between the borrowing rate and performance in Japanese enterprises, measuring performance through total productivity of production factors; A frontier regarding productivity is estimated, and performance is measured by the residual value of the estimator obtained by the method of least squares. The conclusion of this study highlights a negative relationship between borrowing rate and performance. [5] Nickell and Nicolitsas, based on information about the British companies and using total productivity of production factors as a measure of performance, showed a negative relationship between productivity and financial pressure. [6] the study conducted by Weill has used a method of the efficiency frontier to get synthetic measure of performance, using a sample of 12,000 enterprises from three countries (England, France and Italy); the variable explained in the regression is represented by the score of cost efficiency (for cost-efficient frontier, the output was represented by turnover, and inputs of personal expenses and fixed assets), which measures the performance, and the main explanatory variable is borrowing rate; the study's conclusion is that the borrowing rate is positively linked to the performance in France and England and in a negative way, in Italy; the various results are explained by the author through the influence of the institutional framework which manifests itself primarily through the possibility of accessing the bank credit and through the efficacy of the legal system. [7]

In an empirical study, Ben Khediri and Folus demonstrated that the decision of whether or not to use derivatives in purposes of fighting against various risks is linked to the debt (or leverage) of the concerned company. Thus, if the rate of borrowing is high, the coverage using derivatives limits the risk of bankruptcy and the associated costs. [8]

### **3. The empirical study regarding the impact of indebtedness on the performance and risk of the company- the case of enterprises from the field of wholesale trade of building materials**

The objective of this study is to highlight the impact of indebtedness on the risk and performance of wholesale trade enterprises. In this study I created a sample of 32 companies working in the wholesale trade of building materials. Being generally small companies, with a relatively low level of capitalization, I opted for the appreciation of their performance on the basis of a classic indicator, originally from the field of accounting, respectively for return on equity (ROE-Return on Equity), while the risk was calculated using the General solvency ratio.

The models that were made aimed the determination of existing or lack of relationship between indebtedness and financial rate of return, named the General solvency ratio, based on econometric methods and software E-views of statistical analysis.

The assumptions of the models were the following:

- a) a sample of 32 companies working in the wholesale trade of building materials;
- b) time horizon: 2005-2010;
- c) independent variable of the model: indebtedness, calculated for the period of 2005-2010;
- d) dependent variables (successively): financial profitability and overall worthiness for 2005-2010.

Considering that the dates that were mentioned involve observations that possess both identifiers for cross sections, as well as their developments in time, I opted for their analysis in panel working files. Grouping data in a pool allows identification of existing connections between components,

but also of the common characteristics of the group that was considered.

This analysis tool allows the estimation of the common component of the effects of indebtedness submitted to the analyzed companies, as well as the quantification of the temporary effects associated to the modification of indebtedness. The analytical methodology is based on a weighted moving average, which grants higher weighting to the most recent information and on the specifications with fixed effects, involving a simple approach consisting in the removal of the dependent variable average lateral or temporal, and then generating a regression equation using the resulting data.

The obtained results regarding the significance level of the coefficient estimated before the independent variable, degree of indebtedness, reflects the fact that it is significant in terms of statistics. Between the profitability trend and the evolution of financial indebtedness, there is an inverse relationship, in the sense that an increase in the indebtedness causes a reduction in the rate of financial profitability. The coefficient of determination (R-squared) and the adjusted coefficient of determination (Adjusted R-squared) are located above the limit values of 0.6, which indicates the existence of the correlation between the two sets of variables; we can therefore say that the model was well specified.

The obtained results regarding the significance level of the coefficient estimated before the independent variable, degree of indebtedness, reflects the fact that it is significant in terms of statistics. Between the evolution of the general solvency, as a measure of risk, and the evolution of indebtedness, there is an inverse relationship, in the sense that an increase in the indebtedness causes a reduction in the firm's solvency. The coefficient of determination has extremely high values, which leads to a doubt regarding the validity of the considered model.

### **4. Conclusions**

Although the analysis of the tests shows that there is a significant correlation between the degree of indebtedness of companies in the field of wholesale trade of building materials and the financial rate of return, and

its solvency, I consider that the analysis can be deepened through the incorporation of information regarding the cost of gained capital. In the current economic context, which has a decisive effect on cash flow and on the ability of businesses to keep borrowing rates at a level similar to the one before the crisis, it is necessary to analyze in detail the operations and to identify the value of borrowed capital that can be borne out of the current cash flow and of the predicted one. Most often, the analyzed companies appeal to indebtedness in the absence of studies relating to financial leverage, to the optimal structure of used capital, so that the performance of the enterprises have unexpected developments.

A limit of this study is represented by the reduced sample of data available for analysis. As a result, a possible direction of development of the proposed analysis is to expand the database and include a larger number of companies in the analyzed field, which would allow a better stability of estimated results by providing a pronounced stationary level of data. However, I consider that the results of the study provides clues to managers and financial analysts about the connection regarding profitability and risk in comparison to the increase/decrease of the degree of indebtedness; estimation of profitability becomes possible according to funding decisions.

Within companies in the field of trade with building materials the selection of the way investments are financed is very important; being generally small businesses, without the possibility to access the capital market, establishing a funding policy of their activity is really important because, unlike large firms, in the case of a wrong decision, necessary funds for correcting a mistake are not available. Studies have shown that the selection of funding sources and investment projects within small enterprises are not based on rigorous analysis because the managers of small businesses do not have the financial knowledge necessary to understand and apply sophisticated methods of analysis, even if they have the necessary education, the pressure and the limited time do not allow them to use more elaborate techniques of analysis. On the other hand, the cost of such analysis is high. Usually, these costs are relatively fixed, differing very little in

relation to the size of the project; if the cost of these analyses is fixed, and the project in question is small, analyze is not economically justified. All of this leads to the hypothesis that small business and those in the field of trade of construction materials, are based most of the times, in making appropriate decisions, on the discernment of the Manager and not on doing some analyses. These businesses tend to have a strong orientation towards liquidity. Their main goal is survival, so they tend to judge the expenses from the point of view of their effect on the short-term cash. Businesses surveyed have a large degree of uncertainty regarding the forecasting of long-term cash-flow. If these companies are not listed, estimating their value is very difficult, and it cannot be publically tracked. Moreover, there is no basis for estimating the cost of equity.

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# A VAR Analysis of the Connection between Taxation and Economic Growth. Case Study: Romania

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## Abstract

*How can changes in the tax level influence economic activity? The simple correlation between taxation and economic activity has shown that when economic activity increases faster, then tax revenues grow more quickly, but this correlation does not reflect the positive effect of increased taxes on production. A number of studies that have examined the effects of taxes on economic growth and most of them have shown negative effects of taxation on economic growth. This paper examines the relationship between taxation, expressed as a share of tax revenues in GDP and growth, expressed as the rate of real GDP growth in Romania, during 2006-2012, using the VAR model.*

**Keywords:** economic growth, fiscal policy, taxation, VAR analysis

**JEL Classification:** E62, H21, O40

## 1. Introduction

Economic crisis felt by the end of 2008 in our country, highlighted the measures that states should adopt in order to stimulate economic activity. The idea that tax cuts will contribute to economic growth returned, being subject to public debates. This is because there are competing theories about what leads to economic growth. Some sustain the Keynesian approach, demand-side factors, others are followers of neoclassical vision, supply-side factors, while others

support both views. But the economy is complex enough that any theory can find support in the data.

So what reveals empirical literature on the relationship between taxes and economic growth? Even though there are a variety of methods and data sources, the results consistently show significant negative effects of taxes on economic growth, regardless careful observation of other factors such as government spending, business cycle conditions or monetary policy.

In this paper, it was used a VAR analysis as it allows the study of impulse functions of the two variables chosen: tax revenue and economic growth.

## 2. Literature review

Until the 1980s were relatively few empirical research regarding the relationship between the level of taxation and economic growth, compared with studies on the influence of spending on economic growth. In recent years, studies have begun to appear, and at the same time, methods of analysis have become more diverse and precise. Most studies have shown that between taxes and economic growth there is a negative relationship [1].

To highlight the impact of taxation on economic growth, some studies have taken into account the average rate of tax. Leibfritz and others (1997) suggested that a 10% increase in the average tax rate may reduce the annual growth rates of OECD by 0.5% and stressed that direct taxation has reduced marginal increase much more than indirect

taxation [5].

Karras and Furceri (2009) using panel methodology that analyzes annual data from 1965 to 2003 for 26 OECD economies have shown that higher taxes lead to a significant and persistent reduction in GDP per capita. Estimates suggest that an increase in the total tax rate by 1% of GDP will have a long term effect on GDP per capita from -0.5% to -1.2% [4].

Poulson and Kaplan (2008) have explored the impact of fiscal policy on economic growth in the U.S. in an endogenous growth model. Regression analysis is used to estimate the impact of taxes on economic growth in the period 1964-2004. The analysis shows that high marginal tax rates had a negative impact on economic growth and also shows that higher regressivity had a positive impact on economic growth [6].

De Castro and Cos (2006, 2008) estimated the effects of exogenous fiscal policy shocks in Spain, using the VAR method. They pointed out that raising taxes generates irrelevant positive effects on GDP because the effects on medium term are negative due to increase spending. Based on these results, the authors believe that the attempt to achieve fiscal consolidation by increasing the tax burden may fail and may involve even larger deficits in the future, and also in the medium term, this could slow economic activity [2].

Padovano and Galli (2001) conducted a study using data from 23 OECD countries for the period 1951 and 1990 and found that high rates of taxation and progressive taxation are negatively correlated with economic growth in the long term. The same researchers, in 2002, as a continuation of the original study, they estimated that a ten percentage point increase in marginal tax rates led to a decrease of 0.23 percentage points to the annual rate of growth [7].

In a study by Engen and Skinner (1996), they found a relationship twice stronger. They studied more than 20 papers analyzing tax rates and economic growth in the United States and abroad. The researchers concluded that "a major reform of taxation, in order to reduce all marginal rates by 5 percentage points ... is expected to lead to higher long-term growth rates with values between 0.2 and 0.3 percentage points [3].

Analyzing corporate taxes, researchers

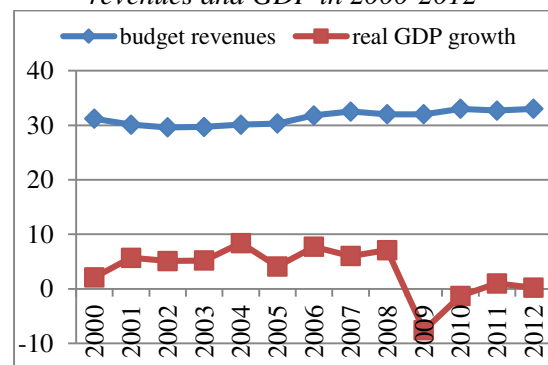
Young Lee and Roger Gordon (2005) reached the same conclusion. Using data from 70 countries between 1970 and 1997, they demonstrated that a 10 percentage point corporate tax rates led to a higher growth rate of a country with one-two percentage points. An increase with one-two percentage points in the rate of economic growth is not done in time, but is made in time. One percentage point gathered at growth rate, composed over a period of 20 years, leads to an increase in real GDP of a country with 22 percent [8].

### 3. The dynamics of tax revenues and GDP in Romania in the period 2000-2012

The year 2008 marks the largest economic crisis after the great recession of 1930 and it affected both developed and emerging countries. In our country the crisis was felt in late 2008 and brought with it a number of challenges: a new approach of fiscal policy, improved public services and their reform, capacity of development with fewer resources.

Fiscal policy is becoming increasingly important in adjustment programs oriented on economic growth. Fiscal policy measures must lead to increased domestic savings, which are necessary for financing investment, associated with growth objectives. Also, special attention should be paid to how fiscal policy affects resource allocation and economic growth.

Figure 1. The evolution of budget revenues and GDP in 2000-2012



Source: own processing based on Eurostat

Year 2010 is the second consecutive year when our country's economy knows an economic contraction, GDP decreased by 1.3%. The revenue from this year increased due to the surprising evolution of indirect tax



revenue. 2011 revealed that the Romanian economy is back on a path of growth, real GDP increasing by 1%, after two years of steep decline.

In 2012, Romania's economy registered a growth for the second consecutive year, GDP grew by 0.2% in real terms compared with the lower growth of 1% reached in 2011. Increasing the share of revenue in GDP from 32.7% in 2011 to 33% in 2012, is explained by the positive trend in revenues from other taxes and charges for goods and services, and by improving absorption of EU funds. Insurance contributions and tax revenue are those that have registered negative evolutions.

**4. Methods and results. A VAR analysis**

This part of the present paper is aimed to test the econometric correlation between taxation, expressed as a percentage of budgetary revenues in GDP and economic growth, measured by real GDP growth rate.

To emphasize the link between revenues and growth for Romania, we used data on a quarterly basis, available on the websites of the National Institute of Statistics, Eurostat, International Monetary Fund, the National Bank of Romania and the Ministry Public Finances during 2006-2012. Considering the efficiency and significance of statistical tests, annual data series is too small for obtaining reliable results, and so we opted for the use of quarterly data.

Vector autoregression analysis aims primarily the assessment of the effects of various shocks on the variables in the system. Each variable is affected by their innovations, and other innovations in the variable.

The main steps to be taken to achieve the econometric analysis are: implementing stationarity tests, Granger causality verification of model variables, VAR model selection and proper lag, verification of the stability of the model and identification of the impulse functions.

Before reading stages model have analyzed the seasonal series, given their monthly frequency and the possibility of this phenomenon. Seasonality will be dealt with graphics provided by Eviews. Of the two, only revenues are affected by seasonality, as evidenced by nesituarea environments at the

same level. To continue the study may be needed Deseasonalisation data, which is done using the function Tramo / Seats.

Model's first stage involves verification of stationary variables, most notably test being ADF test, Augmented Dickey Fuller. From an economic perspective, a series is stationary if the a shock over the series is temporary (absorbed over time) and not permanent. If the series is not stationary, using difference can become a stationary one. Integration order of the series is the number of successive differences necessary to obtain a stationary series.

*Table 1 – Testing stationarity on level of GDP series*

Null Hypothesis: GDP has a unit root  
 Exogenous: Constant  
 Lag Length: 1 (Automatic - based on SIC, maxlag=6)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-2.318332	0.1740
Test critical values: 1% level	-3.711457	
5% level	-2.981038	
10% level	-2.629906	

Source: own processing using Eviews 7.1

*Table 2 – Testing stationarity on level of BR\_SA series*

Null Hypothesis: BR\_SA has a unit root  
 Exogenous: Constant  
 Lag Length: 0 (Automatic - based on SIC, maxlag=6)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-4.581059	0.0012
Test critical values: 1% level	-3.699871	
5% level	-2.976263	
10% level	-2.627420	

Source: own processing using Eviews 7.1.

For GDP series has been found that there is one non- stationary, or, in other words, has a root unit (see Table 1). Therefore, it was necessary the first order differentiation of the series, the results indicate that the first order integrated series is stationary, so no unit root as shown in Table 3. Regarding BR\_SA series there was a lack of unit root at the initial level, so the series is stationary, therefore first order differentiation is not necessary.

*Table 3 – Testing stationarity of GDP series on first order differential*

Null Hypothesis: D(GDP) has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic - based on SIC, maxlag=6)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-3.192385	0.0320
Test critical values:		
1% level	-3.711457	
5% level	-2.981038	
10% level	-2.629906	

Source: own processing using Eviews 7.1.

Next, to determine the extent to which the current level of GDP is due to its previous levels, showing, however, that by adding the previous values of the other variables studied, in our case, budget revenues, the explanation can be improved, we applied the test of causality Pairwise Granger. If the probability is higher than significance level of 1%, 5% or 10%, then the null hypothesis is accepted. If not, the null hypothesis is rejected.

*Table 4 – Pairwise Granger causality test*

Pairwise Granger Causality Tests

Date: 11/17/13 Time: 20:47

Sample: 2006Q1 2012Q4

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
BR_SA does not Granger Cause GDP	26	5.43245	0.0125
GDP does not Granger Cause BR_SA		0.15307	0.8590

Source: own processing using Eviews

Granger causality test, as shown in the table above suggests that it is accepted the null hypothesis in the second case, respectively, GDP does not cause Granger volume to budgetary revenues. The null hypothesis is rejected in the first case, which shows that the volume of budget revenues cause causality to GDP.

Since the variables expressed as first differences became stationary and Pairwise Granger test indicates some causality, the VAR model can be build consisting of revenues and real GDP for Romania. It should be noted that a VAR model is valid if there is optimal number of lags, if it is stable and if there is a lack of autocorrelation residues, normal distribution and homoskedasticity.

The number of lags should capture the

system's dynamics without consuming too many degrees of freedom. In order to determine the optimal number of lags, it was used the criteria offered by Sequential LR tests, Akaike Criterion, Schwartz and Hanna-Quinn Criterion.

*Table 5 – Estimating the optimal number of lags*

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-108.2490	NA	16.52726	8.480689	8.577466	8.508558
1	-87.69351	36.36733	4.634387	7.207193	7.497523	7.290798
2	-79.42999	13.34877*	3.364147*	6.879230*	7.363113*	7.018571*

\* indicates lag order selected by the criterion

LR: sequential modified LR test statistic (each test at 5% level)

FPE: Final prediction error

AIC: Akaike information criterion

SC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

Source: own processing using Eviews 7.1

As can be seen from the table, for our country it will be applied a VAR model with two lags. To test the stability of the model it will be applied the test "AR Roots Table" and if all the roots are below par, this means that the model is stable (Table 6).

*Table 6 – VAR model stability*

Root	Modulus
0.631746 - 0.260658i	0.683407
0.631746 + 0.260658i	0.683407
-0.002589 - 0.625323i	0.625328
-0.002589 + 0.625323i	0.625328

No root lies outside the unit circle.  
VAR satisfies the stability condition.

Source: own processing using Eviews 7.1

Regarding the residues quality, they were tested if present normal distribution, absence of heteroskedasticity and lack of autocorrelation. If the probability is higher than significance level of 1%, 5% or 10%, then the null hypothesis is accepted. Otherwise, the null hypothesis is rejected.

*Table 7 – Residue tests*

Autocorrelation LM test		Cholesky (Lutkepohl) Normality test			White Heteroskedasticity test
H0		H0			H0
No serial correlation at lag order h		Residuals are multivariate normal			no heteroskedasticity
		Skewness	Kurtosis	Jarque-Bera	
Lag 1: 0,7937	Lag 2: 0,7517	0.9751	0,3134	0.6679	0.1270

Source: own processing using Eviews 7.1

It is noted that probability values are significantly higher than the significance level of 5%, so the null hypothesis is accepted. An important step is to estimate the VAR model. Since the validity conditions were fulfilled, the VAR model can be defined as:

$$BR_t = \alpha_1 + \beta \times BR_{t-2} + \chi \times GDP_{t-2} + \varepsilon_{1t}$$

$$GDP_t = \alpha_2 + \delta \times GDP_{t-2} + \phi \times BR_{t-2} + \varepsilon_{2t}$$

Table 8 - Estimate VAR Model for Romania

Vector Autoregression Estimates  
Included observations: 26 after adjustments  
Standard errors in ( ) & t-statistics in [ ]

	GDP	BR_SA
GDP(-1)	1.148029 (0.17288) [ 6.64059]	0.035384 (0.06402) [ 0.55270]
GDP(-2)	-0.376363 (0.16672) [-2.25742]	-0.031122 (0.06174) [-0.50409]
BR_SA(-1)	1.508187 (0.55502) [ 2.71737]	0.110285 (0.20553) [ 0.53659]
BR_SA(-2)	1.007627 (0.62135) [ 1.62167]	-0.401931 (0.23009) [-1.74682]
C	-20.00245 (6.45442) [-3.09903]	10.46329 (2.39014) [ 4.37769]

Source: own processing using Eviews 7.1

The "BR-GDP" VAR model can be considered representative for describing autoregressive links between taxation and growth Romania. The main goal of VAR analysis is to evaluate the effects of various shocks on the variables of the system. Each variable is affected by its own innovations and innovations in other variables.

## 5. Conclusions

This study was based on investigating the impact of budgetary revenues on economic growth, and the methodology applied in this research helps identifying shocks that influence a particular economy.

Based on the estimated model were identified impulse response functions which illustrates the impact of a shock on the evolution of budgetary revenues on economic

growth and viceversa.

The answer of gross domestic product at changing public revenues - As the results show, the answer is a positive one, ie an increase in government revenue increases the GDP, but this momentum is maintained only for the first part of the analysis. In sub-period 3-10 economic growth decreased continues. I believe that more efforts should be undertaken regarding training in tax revenue, since they are the source of financing for public spending, but raising taxes is not the solution, given the negative response of the evolution of GDP.

After 1989, fiscal policy, among with monetary policy, has been widely used in the field of economic policy. Increasing the amount of the tax rate did not affect seriously the GDP. Even more, any change in the tax base has a strong elastic response on the tax rate. On the other hand, an increase in the tax base causes a decrease in the tax rate. But, it has been noticed that lowering the tax rate does not necessarily imply a decrease of fiscal constraint on purchasing power.

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# Risk and Banking Performance: the Correlation between Credit Risk Ratio and ROA in the Romanian Banking System

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## Abstract

*The economic rentability ratio within a banking system is an index for both efficiency and financial stability. The economic growth in Romania in 2006-2008 and the relaxation of the access conditions to banking credit led to an unprecedented expansion of the non-governmental credit. At the end of 2008, when the international crisis made its presence felt in Romania as well, credit risk became once again a matter of interest for both banking management and regulatory authorities.*

*I consider that a study of the correlation between credit risk ratio and ROA is a useful and current instrument for all participants in the banking market, but also for the public and specialized institutions.*

**Keywords:** banking risk, ROA, credit risk ratio, financial stability

**JEL Classification:** G20; G21; C20

## 1. Introduction

In measuring the performance of banking system, the ROA (return on assets) index occupies a central position. Over the past years the credit risk and non-performing loans have been interesting subjects for all participants to the financial-monetary market: credit institutions management from the perspective of result measurement and strategy development, the central bank from the point of view of the financial stability, the investors – interested in potential gains, the public opinion and the analysts as either industry participants or observers.

Starting from these considerations, it results that the analysis of the correlation between ROE and the credit risk ratio is a present-day general interest matter.

## 2. Characteristics of the banking system in Romania

In 2015, there are 40 banks activating in the Romanian banking system, out of which: 24 with mainly private foreign capital, 4 with mainly Romanian capital, 2 with totally or mainly state capital and 9 foreign banks branches; these are completed by a credit cooperative organization. The Romanian banking industry is open and offers many opportunities. Since 2013, 18 EU institutions notified NBR of their intention to offer directly financial services on Romanian territory, based on the European passport. [1]

An important trait of a financial system is financial stability measured by its capacity of putting up with systemic shocks on a durable base and without any major disturbances; of efficiently distributing financial resources, identifying and efficiently managing risks.

“The policy approach to promoting financial stability has changed dramatically in the wake of the global financial crisis” (Yellen, 2014) [2]

For the Romanian banks, the financial crisis did not only imply the reduction of loans, the loss registered on the balance sheet or the decrease in the number of agents and employees; some credit institutions also succeeded, in the five years of economic recession, to take advantage of the unfavorable conjuncture and to substantially increase their market shares. [3]

Financial stability is a public good offered by the central bank along with other state institutions; in an open economy such as Romania, financial stability has an international component. [4].

The European Systemic Risk Board (ESRB) published in 2013 its *Recommendation on intermediate objectives and instruments of macro-prudential policy* which contributes to the operationalization of macro-prudential surveillance. The NBR,

through its AC decision of December 2014, has adopted and taken in the intermediate objectives and established the package of macro-prudential policy instruments.

**Table 1. Financial stability indexes**

	2010	2011	2012	2013	2014
Total own funds ratio	15.0	14.9	14.9	15.5	17.3
Total level 1 own funds ratio	14.2	12.0	13.8	14.1	14.3
Non-performing loans ratio	11.9	14.3	18.2	20.1	13.9
ROA	-0.2	-0.2	-0.6	0.01	-1.2
ROE	-1.7	-2.6	-5.9	0.1	-11.6
Net interest income / operating income	60.6	62.0	62.3	58.8	58.3
Cost to income ratio	64.9	67.8	58.7	56.5	55.3

Source: NBR- Temporary data

The local banking system is undergoing a recalibration process of its own activity, according to the new European vision of making a financially sound inter-mediation. [5]

The main elements of this process are:

- Cleaning non-performing loans off balances;
- Reorientation of financing sources towards internal savings;
- Consolidating the premises for loan relaunching on sound foundation and destinations with the purpose of a durable economic development.

It is noted that total own funds ratio is 17.3% in 2014 and total level 1 own funds ratio was around 14% except in 2011 when the recorded value was 12%.

The non-performing loan ratio reached a historical maximum in 2013 and, starting in 2014, there is a decrease tendency.

In opinion of Ghita- Mitrescu S.& Antohi Romania has a banking system crossing a development process and a rising efficiency of its activity. [6]

Taking into account that ROA is a financial stability index and *the Reduction and prevention of excessive loan increase and debt* is an intermediary objective of financial stability, the credit risk ratio –

return on assets (ROA) correlation is a present-day subject.

### 3. Aspects regarding the reporting methodology of aggregated indexes on loan institutions. ROA and credit risk ratio in specialized literature

The aggregated indexes regarding loan institutions reported in Romania refer to all loan institutions (banks, foreign banks branches, Creditcoop). Foreign banks branches do not report solvability. Own funds and loan classification. Indexes are calculated using the FINREP and COREP financial reports of the loan institutions; total actives and own capital for the calculation of the leverage effect, ROA and ROE are at an average level.

Since 2012 the indexes are determined over the reports made according to IFRS (for the indexes that have ‘impaired receivables’ there have been calculated the values for December 2011 based on the accounting data of January 1<sup>st</sup>, 2012.)

Consistent with the prudential regulations of the National Bank of Romania, only loans for which there are determined minimal requirements are classified at individual level, according to the standard approach, the rest of the portfolio is exempt from classification (as is the case for banks which use internal rating approach).

Starting in June 2014 the indexes are based on the information sent by the banks according to European regulations. [7]

Along with the entry into force of the EU Implementing Regulation 680/2014, the Leverage Effect ratio has been included in the reporting package in line with the mentioned technical standards and is reported as such by loan institutions.

Over the past years there have been published several studies on banking efficiency starting from the analysis of non-performing credits and credit risks.

The financial system of Romania evolved in conditions strongly influenced by the manifestation of the global financial-economic crisis. At the beginning of the crisis, the Romanian economy had travelled through a period of many years of economic growth, accompanied however by the accumulation of a relatively important external deficit, as well as the increase of the

external debt on short term. The banking sector faced well these pressures sead Popescu. [8]

A study regarding the banking performance indexes for Romania, the Czech Republic and Hungary was made by Andrieş and Cocriş. They made a frontier analysis with a nonparametric model DEA Method (Data Envelopment Analysis) and a parametric method SFA Stochastic Frontier Analysis. [9]

Spulbar si Niţoi studied the evolution of non-governmental loan 2001-2010 and the impact of the influencing factors through an econometric multi-factor regression model f(GDP real, Index, Ratio, Spread interest Ratio unemployment Index unemployment). [10] Spulbar.

Stochastic frontier models contribute to demonstrating the impact of the European integration process on increasing of the banking efficiency levels for 240 banks from 12 countries (including Romania) during 2000-2008 (Gallizo). [11]

Data envelopment analysis DEA was used by Niţoi in order to analyze the efficiency and productivity of the Romanian banks during 2006-2008. His findings suggest that majority of commercial banks were inefficient referring to the proper management of costs. [12].

The correlations between ROA and non-performing loans, as well as ROE - CRR Credit risk ratio, were both analyzed by Socol and Dănuleştiu. They found that ROA and ROE vary each of them depending on the CRR Credit risk ratio, which is expressed as the ratio of gross value of exposure to loans and related interest under "doubtful" and "loss" to total classified loans and related interest pertaining to non-bank loans, off-balance sheet items excluded. [13]

Risk assessment is also important for an efficient management of the banking actives and debts, as proven by the study made by Zapodeanu, Cociuba and Petria. In order to apply the management of assets and liabilities in financial institutions it is imperative that the objective function, which usually are the risk level, earnings, liquidity, profit, solvency, the loans and deposits levels, value added to also take in consideration the worst cases scenario. [14]

A study on banking efficiency relevant for the new EU member states was realized in 2013 by Roman and Sargu [15]

#### **4. The analysis of the Credit risk ratio – ROA correlation in the banking system of Romania**

Credit risk ratio is a relevant index for the financial-banking system. In Romania the credit risk ratio is calculated as a proportion of the gross exposure of the loans and interests classified as 'doubtful' and 'loss' in the total of classified credits and interests (excluding off-balance elements).

Credit risk ratio is a more restrictive index of the loan portfolio quality than the non-performing loans weight.

The credit risk ratio also includes the loans/interests with a debt service shorter than 90 days (compared with over 90 days as recommended by the IMF), and the classification criteria contain the debtor financial performance as well as the principle of contamination demotion.

Within this study we have analyzed the evolution of the *Credit Risk Ratio - CRR*) and *ROA* over December 31<sup>st</sup>, 2007 – March 31<sup>st</sup>, 2014 (available data – NBR statistics).

Over 2007- September 2008 CRR was situated around 4.5% which shows a very low risk exposure. Over the same period, the average ROA in the entire banking system was in the interval of 1.51-1.77%. These excellent results of the banking industry deteriorated starting at the end of 2008. Thus, on March 30<sup>th</sup>, 2009 ROA was already negative, while Credit Risk Ratio reached the value of 9.4% and 15.29% by the end of the year.

CRR was on an upward trend in 2010 as well, but its growth was slowed down and had a level of approximately 21% in December 2010.

During 2010 the quality of the loans portfolio deteriorated mainly because of these two factors:

- The extension of the period of economic activity contraction;
- The measures adopted by the government on the line of fiscal consolidation (with the effect of diminishing the revenues of a large category of debtors).

The over 90 days unpaid loans and interests over the total unpaid loans and interests oscillate around 13%. The efforts of the banks on the line of provisioning loans and placements, especially on those considered to be non-performing, continued in 2010 as well; the provisions amount majored by 57% after it had doubled the previous year, these costs having a significant influence on the profitability indexes. As a result, the reserves destined to the absorption of eventual expected losses were increased.

Over the following period, 2011-2014, CRR has a permanently growing tendency reaching the historical maximum of 32.2% in March 2014.

In the conditions of the banks' loan portfolio decline, ROA maintained at a negative level in 2011 and the first half of 2012. 2013 has positive economic rentability, but at the end of December 2014 ROA reached a historical minimum of -1.24% (temporary data).

The study of the correlation was realized through the calculation of the Pearson coefficient which is noted with  $\rho(X,Y)$  and is defined by the relation:

$$\rho(X,Y) = \frac{\text{cov}(X,Y)}{\sigma_x \cdot \sigma_y} = \frac{\sum_{i=1}^N (x_i - \mu_x)(y_i - \mu_y)}{N \cdot \sigma_x \cdot \sigma_y}$$

where:

- $\text{cov}(X,Y)$  - co variation;
- $x_i, y_i, \mu_x, \mu_y$  are values of the correlated variables and their average level;
- $\sigma_x, \sigma_y$  – standard deviation for X and Y, respectively.

**Table 2. Pearson Correlations**

		Credit Risk Ratio	ROA
Credit Risk Ratio	Pearson Correlation	1	-,532(**)
	Sig. (2-tailed)		,006
	N	26	25
ROA	Pearson Correlation	-,532(**)	1
	Sig. (2-tailed)	,006	
	N	25	28

The value of -0,523 of the coefficient shows an indirect dependency of the two variables.

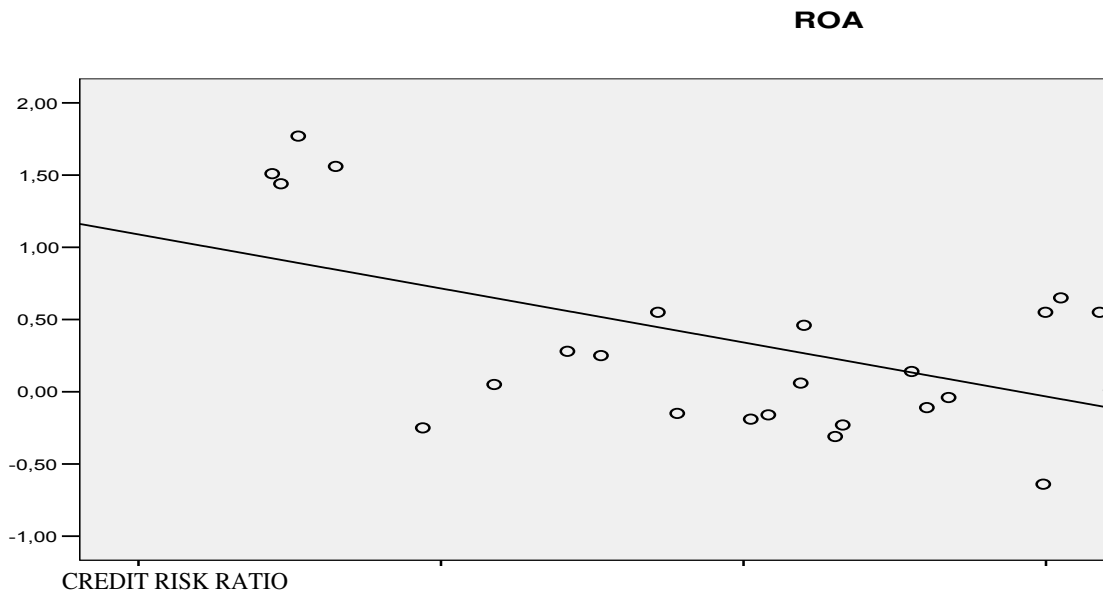
The signification degree of the result with an error of less than 6 % justifies the generation of a linear regression model.

**Table 3. Model Summary and Parameter Estimates**

Equation	Model Summary					Parameter Estimates	
	R Square	F	df1	df2	Sig.	Constant	b1
Linear	,283	9,091	1	23	,006	1,089	-,037

Dependent Variable: ROA

The independent variable is Credit Risk Ratio.



The regression model is useful in forecasting financial performance of the banking system in Romania in relation with credit risk.

## 5. Conclusions and new analysis directions

The financial system of Romania, of which the banking system is a significant part, is a stable one. Although the effects of the financial crisis appeared through contamination, Romania is one of the few countries where public funds were not used to cover the banking system losses.

- The banking system is well capitalized, with the average capital adequacy ratio at 15% (headline) and 13.7% (CT1) at end-2013
  - The NBR is exercising tight oversight of prudential indicators, with a focus on capital adequacy dynamics and banks' efforts to raise additional capital
  - Most banks exceed the conservative 10% threshold recommended by the NBR (against the required level of 8%)
  - No public funds have been used so far to support the banking sector

□ The liquidity ratio (effective liquidity/required liquidity) remained adequate (1.5 in February 2014)

□ In 2013 the banking system profitability re-entered positive territory and remained positive in early 2014. [14]

The analysis of the ROA – CRR correlation revealed the fact that there is an indirect connection between the two variables. An increase in CRR determines a decrease of the economic performance in the Romanian banking system. On the background of credit risk diminution there are favorable conditions to the growth of the economic rentability ratio in the banking system over the following period.

Banking efficiency and credit risk must be analyzed in the context of the new European institution construction.

EBA proposed a new index to assess the quality of actives: *non-performing exposures ratio*. [15]

The new index is defined as follows:

### Ratio of

- (i) Material exposures which are more than 90 days past-due **and**
- (ii) Exposures incurring the risk of not being paid in full without realization of collateral, regardless of the existence of any past-due amounts or of the number of days past due

### To

All debt instruments (loans, advances and debt securities) entered in the balance sheet and in off-balance sheet accounts, as well as in the trading portfolio



– The EBA definition covers **both government and non-government exposures**.

It has to be reported every three months; its first reference is September 30<sup>th</sup>, 2014. The National Bank of Romania realized the first report on the index on December 31<sup>st</sup>, 2014.

As a future study direction, we set to approach and analyze the relationship between Non-performing exposures ratio and banking performance indexes.

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# Capital Market and Happiness in United States

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## Abstract

*Happiness represents, starting from the ancient times, the main goal of any individual. Despite the boom of the life satisfaction literature from the last decades, a still not very exploited issue is the relationship between capital markets and life satisfaction due to the difficulty of collecting aggregate information at high frequency. To overcome such difficulty we use the hedonometer's data set generated by Twitter's feed and daily values of S&P500 and VIX. The results show an important correlation between capital market evolutions and Happiness Index.*

**Key words:** happiness, capital market, return, volatility, behaviour.

**JEL codes:** I31, D53, D81, E03, E44.

## 1. Introduction

Starting with the 70's the notion of happiness started to raise the interest of economists at the macroeconomic and microeconomic level [3].

In the happiness studies two different concepts have been used during time: a 'hedonic' idea of happiness and a 'eudemonic' one.

The hedonic school can be traced back to the Socratic doctrine that happiness is the highest good and has an empirical, bottom-up approach stressing subjective well-being. In the 'hedonic' approach, as proposed by Bentham in 1776 [15,13,6], happiness is the result of avoiding pain and seeking pleasure, the key concept in the Utilitarian school. In this sense, happiness is seen as an outcome, empirically related to different conditions and circumstances. The relationship between happiness and utility has also been defined

by Bentham in both its individual and aggregated forms [1,4].

On the other hand, the eudemonic view (more theoretical or top-down), starting from Aristotle (the Greek word eudaimonia could be translated as the highest of all goods achievable by action, according to Aristotle) considers happiness a more complex concept, not strictly limited to attaining pleasure: "happiness is something like flourishing human living, a kind of living that is active, inclusive of all that has intrinsic value, and complete, meaning lacking in nothing that would make it richer or better" [16]. Happiness is seen here as the self-sufficient, ultimate goal of life.

Well-being mainly refers to a physical, social and mental state and it requires that the basic human needs to be met, and the individual being in this pursuit of happiness to have personal important goals and to actively participate in the society. Such a concept is enhanced by certain conditions that include personal interrelationships, good health, personal and financial security and a healthy economic environment.

This paper tries to assess the bidirectional correlation between wellbeing and capital market for US citizens. As a proxy for wellbeing we use hedonometer's data set generated by Twitter's feed which has a very important advantage due to its high frequency values (this variable has also daily values as the capital markets variable).

The paper is structured as follows: section 2 reviews main literature regarding the potential connections between money, capital market and wellbeing, section 3 is dedicated to data and methodology and section 4 concludes.

## 2. Money, capital markets and happiness

In 1974 Richard Easterlin [10] tried to assess if there is "evidence that economic

growth is positively associated with social welfare, i.e., human happiness". His results have shown a strong connection between income and happiness at the individual level but when he tried to compare happiness in nations the connection was much weaker. Happiness is not necessarily higher in the countries where the income is higher (Easterlin paradox).

The positive psychologist, Ed Diener, [7] points out that well-being result only from the fulfillment of universal human needs and that no other factors are relevant. Absolute income would predict well-being, but comparative income or income-change would not.

A great paper published by Blanchflower and Oswald [2] supports Easterlin's view that economic growth doesn't mean happiness for its society. This paper approaches the economics of happiness and it estimates micro-econometric well-being equations, where reported levels of happiness have been dropping through time in the United States.

Easterlin and Angelescu [11] show in their paper that there isn't any significant relevance in the linkage between the improvement in the happiness level and the long term rate of growth of GDP per capita. Their conclusion is based on cross sectional data collected from from three categories of countries such as: 17 developed, 9 developing and 11 in transition – this conclusion reports a positive but confusing in the short term relationship between the growth of income and the level of happiness.

The connection between capital market and wellbeing has been studied just recently. An attempt to explain the relation between the capital market evolution and its impact on subjective well-being is the recent paperwork of Murgea and Reisz [14] that investigates the linkage between the well being and the stock market in USA. This paperwork uses the Gallup Healthways Well-Being Index, Standard and Poor S&P 500 and the volatility index VIX, and it shows that this relation is strong and that stock market has a statistically significant impact on well-being. More exactly, this paper underlines the significant negative relationship between the capital market volatility and well being in comparison with the impact of the personal level of income on well being. We can understand that the effect of the capital

market on well being it is not channeled only by the monetary determinants. The level of happiness is also related to the work environment, the emotional health, physical health and other basic needs. The main methodological problem that arise in this paper is that it uses as proxy monthly values for capital market indexes since the Gallup Healthways Well-Being Index have monthly values. The analyses lost a part of credibility due to the low number of observation and the averages in VIX and S&P500. The present paper tries to overcome these problems and to offer a more solid analysis to assess this correlation.

### 3. Data and methodology

To test the nature of the relation between the evolution of capital markets and happiness we use the Happiness Index measured by Twitter Gardenhose feed, the Standard & Poor 500 index (S&P500) and the Chicago Boards Options Exchange (CBOE) Volatility Index (VIX). S&P 500 is one of the most important equity indicator and one of the best instruments of measurement for US stock market. VIX indicates S&P500's implied volatility and return and is often referred to as the fear index or the fear gauge.

The sample period starts with January 2011 and ends in May 2014. For all the indicators we have used daily average values.

Happiness is measured using the Hedonometer Twitter Happiness real time series, an instrument developed by Petter Dodds [8] at Computational Story Lab at the University of Vermont Complex Systems Center. Hedonometer is basically comprised of people's online expressions, capitalizes on data-rich from social media channels and it shows how people display their happiness to the world. This instrument examines expressions made via the online, global microblogs and through social networks. The most important source for this indicator is Twitter which reveals and explains temporal variations in information and happiness levels on time frameworks ranging between hours to months, and years.

Hedonometer's data set contains over 46 billion words contained in almost 46 billion expressions that were posted over a 33 month span, expressions being posted by at least 63 unique users. To determine the happiness

expressed by words, they merged the most 5,000 frequent words from a collection based on Google Books, New York Times, Music Lyrics and of course Twitter messages – this collection resulted in almost 10,000 unique words. Making use of Amazon's Mechanical Turk service, they had each of these unique words scored on a nine point scale of happiness as it follows: (1) sad to (9) happy. The hedonometer evaluates Twitter's Gardenhose feed which is a random sampling of nearly 50 million (10%) of all the messages posted to this social service, involving 100GB of JSON each day. The words that are written in English are released into a large bag (involves nearly 100 million words per day) and this bag has assigned a happiness score determined by the average happiness score of the words within this bag.

The reasons for which this instrument is based on Twitter feed is that the research team have found that this measure of happiness is correlated very well with traditional surveys of well being; you can focus on Twitter communities to get some insights of what people are expressing inside these communities; Twitter provides a stern test due to the enormous amount of data that is received and processed in real time and last but not least Twitter is becoming a really important collective, worthy of scientific analysis.

S&P 500 indicator is a stock market index that aims to represent the whole sector of stock markets, that is basically a basket of 500 stocks belonging to the 500 companies and ensures approximately 80% coverage of the available market capitalization. Factors influencing the selection of the companies on the market are their liquidities, market size and the sector in which they activate.

The volatility index, also known as VIX – a sentiment indicator from Chicago Board Options Exchange (CBOE) it is mainly used by stocks and options traders to measure the market's anxiety or fear level.

It determines the volatility of a great range of S&P 500 index options and uses near-term and the next term out-of-the money SPX options and then weights the values to yield a constant, 30-day measure of S&P 500 Index expected volatility. The VIX is quoted in the form of percentage that estimates the volatility of the market, volatility that is the expected annualized movement of S&P 500

Index over the next 30 days. Regarding the trend of VIX it provides an accurate indication to the trend of stock market, which is typically trending upwards.

Analyzing S&P 500's evolution for our time frame, the period starts with a value of 19.2 and starting with June 2012 it dropped to 14.9 as expected. After this period we can observe another decrease to 13, and another increase to 14.7. This last period was followed by a decrease to the point of 11.9 in May 2014, as the general trend of S&P 500 develops.

In the case of VIX, a specific range of normal values doesn't exist, since this indicator reflects the market's expectations of the stock market volatility over the next 30 days. Correlating S&P 500 and VIX, we can observe that when the price of stock has fallen, the level of fear increased significantly and when the stock price's reached an approximately normal level (13) the level of fear was a decreasing one.

In the case of Happiness Index, values are comprised between 5.88 and 6.77. The value for this indicator increased during national holidays (4<sup>th</sup> of July), Christmas, Valentine's Day and other important global events. Correlating this index with S&P 500 and VIX only from these data doesn't show a significant relationship.

Based on these data we have constructed the next variables: SPR, VIXV and THIV taking into account three years of daily average values (all the resulted variables were tested for unit roots using Augmented Dickey Fuller, Phillips Perron and Dickey Fuller tests and they were proved to be stationary).

The formula for S&P 500 was calculated as follows:

$$SPR = (SP_t - SP_{t-1}) / SP_{t-1} \quad (1)$$

where:  $SP_t$  = daily S&P500 closing prices

The equation for VIXV is as follows:

$$VIXV = (VIX_t - VIX_{t-1}) / VIX_{t-1} \quad (2)$$

where:  $VIX_t$  = daily VIX closing prices

The equation for THIV stands bellow:

$$THIV = (THI_t - THI_{t-1})/THI_{t-1} \quad (3)$$

where: THI = daily THI value

Our main assumption is that the trend of capital markets evolution has a strong connection to the well being of the Americans. Any change in the economy, positive or negative influences the emotional state of citizens and therefore their lifestyle. Any collapse in the economy has a direct impact on investments, income and unemployment. From our point of view the evolution of the capital markets has not only a monetary importance; it also affects the emotional and psychological state of United State's citizens.

On the other hand the happiness could impact on capital market too. Forgas [9] in Affect Diffusion Model (AIM) suggests that subjects in bad mood have a more pessimistic view of the world, perceive situations as riskier, and have, as a result, a lower propensity toward risk taking. On the other hand, individuals in a positive affective state, who usually have a more optimistic view and perceive a safer environment, should be more prone to risk taking. Oposite to that Isen [12]) in Mood Maintenance Hypothesis (MMH) support the idea that, independently of the current mood, the main goal of any individual is to achieve and maintain well-being. In a good mood, the individual will avoid risky situations in order to preserve the good state. In the case of a bad mood situation, the individual will choose riskier alternatives hoping that the possible gains will lift his spirit. Individuals are pretty different. Hence, the impact of changes of mood may have heterogeneous effects on the risk taking attitude.

Therefore, we have built two sets of models (in the first set we test the way happiness impact on capital market variables and in the second one the inverse relationship) including past and current values for the stock market variables, due to their well known autoregressive nature:

**Model I.a:**

$$SPR_t = c + \beta_1 SPR_{t-1} + \beta_2 SPR_{t-2} + \dots + \beta_n SPR_{t-n} + \alpha THIV_t + \varepsilon_t \quad (4)$$

where:

- c = constant
- SPR<sub>t</sub> = S&P 500 return
- THIV<sub>t</sub> = Happiness Index variation
- ε<sub>t</sub> = disturbance term

**Model I.b:**

$$VIXV_t = c + \beta_1 VIXV_{t-1} + \beta_2 VIXV_{t-2} + \dots + \beta_n VIXV_{t-n} + \alpha THIV_t + \varepsilon_t \quad (5)$$

where:

VIXV<sub>t</sub>= VIX daily variation

Testing the above benchmark one could notice that happiness seems to be positively correlated with SPR within a 6 days lag. This could be explained by a similar attitude like the one described in AIM (see table 1). Also, happiness impact on VIXV but on a shorter run than on return, as the one could see from table 2. This is quite normal since the transmission channel to return seems to be the mood which is closer to VIXV.

*Table 1. Equation output for SPR in relation to THIV*

Variables	Coefficients
C	0.000770** (0.000375)
SPR(-1)	-0.066761* (0.036044)
SPR(-3)	-0,111792*** (0,036076)
SPR(-5)	-0,137293*** (0,036021)
THIV(-6)	0,049489** (0,028736)

\* stands for a probability that ranges from 0.05 to 0.1; \*\*stands for a probability that ranges from 0.01 to 0.05; \*\*\*stands for a probability that ranges from 0 to 0.01; () for standard deviation

Source: personal computation based on the data provided by <http://hedonometer.org/> and <http://finance.yahoo.com/>

*Table 2. Equation output for VIXV in relation to THIV*

Variables	Coefficients
C	0.004041** (0,002515)

<b>VIXV(-1)</b>	-0,142201*** (0,035924)
<b>VIXV(-3)</b>	-0,092246** (0,035937)
<b>VIXV(-5)</b>	-0,093562*** (0,035935)
<b>THIV(-3)</b>	0,355940** (0,092242)

\*stands for a probability that ranges from 0.05 to 0.1;\*\*stands for a probability that ranges from 0.01 to 0.05;\*\*\*stands for a probability that ranges from 0 to 0.01;() for standard deviation

Source: personal computation based on the data provided by <http://hedonometer.org/> and <http://finance.yahoo.com/>

The second set of models test the inverse relationship. We are trying to asses in which direction capital market impact on happiness.

**Model II.a.**

$$THIV_t = c + \beta_1 THIV_{t-1} + \beta_2 THIV_{t-2} + \dots + \beta_n THIV_{t-n} + \alpha_1 SPR_t + \dots + \alpha_m SPR_{t-m} + \varepsilon_t$$

(6)

**Model II.b.**

$$THIV_t = c + \beta_1 THIV_{t-1} + \beta_2 THIV_{t-2} + \dots + \beta_n THIV_{t-n} + \alpha_1 VIXV_t + \dots + \alpha_m VIXV_{t-m} + \varepsilon_t$$

(7)

After testing those two models, the results show a strong and statistical correlation in case of SPR (see table 3) that can be easily explained. A well functioning capital market, in a bull stage creates through income and unemployment chanelles good premises to increase the happiness levels. VIXV tends not to have a very clear influence since the effects are opposite in signs and revers as soon as they appear (see table 4).

Table 3. Equation output for THIV in relation to SPR

Variables	Coefficients
<b>C</b>	0.000133* (0,000394)
<b>THIV(-1)</b>	-0,652884*** (0,035502)

<b>THIV(-2)</b>	-0,442698*** (0,039593)
<b>THIV(-3)</b>	-0,224501*** (0,035526)
<b>SPR(-4)</b>	0,105829*** (0,037707)

\*stands for a probability that ranges from 0.05 to 0.1;\*\*stands for a probability that ranges from 0.01 to 0.05;\*\*\*stands for a probability that ranges from 0 to 0.01;() for standard deviation

Source: personal computation based on the data provided by <http://hedonometer.org/> and <http://finance.yahoo.com/>

Table 4. Equation output for THIV in relation to VIXV

Variables	Coefficients
<b>C</b>	0,000162* (0,000405)
<b>THIV(-1)</b>	-0,584799*** (0,034626)
<b>THIV(-2)</b>	-0,306580*** (0,034660)
<b>THIV(-5)</b>	0,011657** (0,005793)
<b>VIXV(-4)</b>	-0,014564** (0,005808)

\* stands for a probability that ranges from 0.05 to 0.1;\*\*stands for a probability that ranges from 0.01 to 0.05;\*\*\*stands for a probability that ranges from 0 to 0.01;() for standard deviation

Source: personal computation based on the data provided by <http://hedonometer.org/> and <http://finance.yahoo.com/>

**4. Conclusions**

Starting from our premise, that S&P 500 and VIX indicators are highly correlated with the Happiness Index we can definitely state that there is a relationship between the evolution of the capital markets and the wellbeing in United States. If the investors are happy they will be less risk averse and their attitude toward risk will translate in higher returns of the capital market. On the other side high return on capital markets encourage investments, increase incomes and

decrease unemployment that lead in final to a growth in individual well-being.

Financial institutions, corporations and the government should give more access to this type of knowledge, in order for more people to be aware of the economy's evolution and ways to predict it.

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# Scrutinizing the Tax Compliance Puzzle via Tax Literacy

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## Abstract

*On the account that taxes constitute the main financial support for the majority of state budgets all around the world, the tax compliance puzzle has gained a lot of attention among academia researchers, economists and financial professionals, state representatives, international organizations and the general public.*

*The paper stresses the idea that tax literacy is numbered among the factors shaping taxpayers' compliance behavior. The more knowledgeable contributors become in the matter of taxation, the more funding state budgets enjoy. Strategies applied by governments around the world tend to support this assumption.*

**Keywords:** tax literacy, tax compliance, authorities.

**JEL Classification:** F62, G18, H26.

## 1. Introduction

"Imagination is better than knowledge" stated once the renowned physicist Albert Einstein. In the field of tax behavior, both concepts are important. On one hand, citizens have to be knowledgeable regarding taxation matters in order to fully comply with the tax law. On the other hand, state authorities have to be knowledgeable regarding citizens' behavior and needs in order to develop compliance strategies that yield adequate amounts of tax money. When it comes to boosting tax compliance, imagination can also help authorities in finding the most appropriate strategies.

Considering the multitude of variables that influence taxpayers' behavior, the present research endeavor focuses on tax literacy. The remainder of the paper is as follows. Section 2 draws on the tax compliance puzzle, emphasizing the

importance of tax literacy. Section 3 illustrates how authorities around the world aim to secure appropriate budgetary resources by educating citizens in tax matters. Section 4 concludes.

## 2. Tax literacy – among prominent drivers of tax compliance

"Why people pay taxes?" [1-6] is an inquiry that has raised the interest of academic researchers, economists and financial professionals, state representatives and ordinary citizens during the last four decades, on the account that taxes are the main financial support for the majority of worldwide state budgets.

If in the first instance it was suggested that tax compliance levels are adjusted solely through economic variables (e.g., audit rate, tax rate), further empirical investigations have reported that taxpayers also respond to other incentives [7]. Actually, researchers have emphasized that tax evasion levels should be much higher if only economic variables mattered [8]. The fact that the majority of taxpayers are honestly reporting their income suggests there is something else beyond cost-benefit analysis that drives compliance. For that matter, the spectrum of tax compliance determinants is very comprehensive.

As the literature posits, until 1978 at least 60 different determinants have been identified [9]. People pay taxes [10-19] for a different set of reasons: some to do the right thing, to finance the public goods system, to fulfill their civic duty, to support the state and its citizen; some to follow norms and regulations, to prevent possible audits, to avoid harsh penalties, etc.

Other taxpayers comply because they are aware of the importance of taxation for the proper functioning of modern societies. In other words, they acknowledge the reality stated by Oliver Wendell Holmes, who



viewed taxes as the price paid to live in a civilized society. Besides the knowledge regarding the role of taxes, citizens may also possess knowledge regarding the taxonomy of fiscal obligations and taxable revenues (which depends, of course, on their taxpayer status, i.e., individual, self-employed or corporate).

Hence, one particular factor which steers contributors towards compliance is tax literacy. As studies in this line of research are rather scant [20], a widely accepted standard definition has not been yet attributed to the concept. In my opinion, tax literacy could be interpreted in a narrower sense, as well as in a broader sense.

In a narrower sense, tax literacy is regarded as taxpayers’ ability to correctly fill in a tax return [21-22]. This view mirrors one of the four conditions of tax compliance [23]:

- genuine reporting of the tax base;
- *accurate computation of taxes to be paid*;
- filling the tax report in due time, according to the tax calendar established by authorities;
- payment of taxes owed in due time, to avoid penalties.

In a broader sense, tax literacy is linked to the level of tax knowledge possessed by contributors [24-26]. The present paper draws on the broader definition of tax literacy.

### **3. Tax literacy strategies – a brief global itinerancy on turning theory into practice**

“Think globally, act locally” [27] – a phrase attributed to microbiologist René Dubos – thoroughly fits the subsequent paragraphs.

As much as fighting tax noncompliance has become a global movement and regulators attempt to uncover taxable “hidden treasures” [28-30], finding appropriate strategies to raise tax compliance levels via tax literacy has turned into a priority for many state representatives, governments and international organizations. Therefore, strategies to educate taxpayers range from more traditional to more creative.

In the line of more *traditional* approaches, the US Internal Revenue Service has partnered with education professionals and developed an online platform called

“Understanding Taxes” [31]. Potential and actual taxpayers can improve their tax knowledge going through 14 modules:

- Payroll taxes and federal income tax withholding;
- Wage and tip income;
- Interest income;
- Dependents;
- Filing status;
- Exemptions;
- Standard deductions;
- Claiming child tax credit and additional child tax credit;
- Tax credit for child and dependent care expenses;
- Education credits;
- Earned income credit;
- Refund, amount due and recordkeeping;
- Electronic tax return preparation and transmission;
- Self-employment income and the self-employment tax.

The information featured on the platform may be adapted by teachers to train middle school, high school and community college students on tax issues or may be accessed by the general public interested in improving their tax knowledge.

In Romania, the National Agency of Fiscal Administration (NAFA) has been implementing the project called “Developing a partnership between the NAFA and the direct beneficiaries of the services provided by the agency – premise for increasing the efficiency of the public revenue collection system” [32-33]. As one aim of the project is to educate taxpayers on taxation matters, the agency has developed a national media campaign (via newspapers, radio, TV, online, outdoor events) stressing the importance of taxpaying and societal benefits yielding from voluntary compliance.

Since basic tax information among contributors in developing countries is quite scarce and compliance levels are at the minimum, national tax authorities are more prone towards implementing *creative* strategies [34].

For a case in point, less than 1% of the population in Bangladesh pays taxes. With the purpose of incentivizing citizens to pay their taxes in due time (i.e., until September, 30<sup>th</sup>), in 2008 authorities decreed the 15<sup>th</sup> of

September as National Income Tax Day. During this particular day, tax information reaches contributors in a variety of methods with the involvement of all tax authorities across the country (e.g., seminars, banners, street rallies, contests with prizes for highest contributors, documentaries). The strategy has generated positive results in terms of compliance levels. Namely, the amount of income tax collected has increased twice during the last four tax years.

In a similar festive approach, Guatemalan authorities use culture to promote voluntary tax compliance and cultivate good citizenship. Through the annual festival "Strength Lies in Numbers", they teach citizens about the social importance of taxes with the help of entertaining activities (i.e., music concerts, talent shows, plays).

The importance of taxpayers for the national Rwandan economy is celebrated during "Taxpayers' Day" (decreed in 2002). To increase popularity among taxpayers, the event is chaired by the president of the country, who recognizes the most compliant taxpayers by awarding them merit certificates and medals [35].

#### 4. Concluding remarks

Taxation is an essential component of modern societies which redistributes wealth at national level and finances the public goods system providing education, medical services, social protection, national security, infrastructure, etc. Taking into account the importance of taxes for citizens' wellbeing and life satisfaction, the topic of tax behavior has begun to be intensively investigated starting with the 1970s [36-38].

According to the literature, the amount of tax money collected by tax authorities depends, among other, on tax literacy regarded as citizens' level of tax knowledge. Namely, the more knowledgeable contributors become in the matter of taxation and its importance, the more funding state budgets enjoy.

Acknowledging this connection, tax authorities around the world have focused on strategies aimed at raising the level of tax literacy among individual, self-employed or corporate taxpayers. Consequently, by means of moderate or substantial investments, taxpayers have started learning more about

fiscal obligations and the relevance of taxpaying.

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## The Accounting for Revenues and Impact of Fair Value

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### Abstract

*On 28 May 2014, the IASB (International Accounting Standards Board) and FASB (the US accounting regulatory body) have jointly issued a new standard contains requirements for recognizing revenue from contracts with customers. IFRS 15 "Revenue from contracts with customers" will apply to financial years beginning 1 January 2017. Earlier application is permitted for entities applying IFRS (International Financial Reporting Standards). Global financial developments have increased the interest of economic actors on accounting. This paper investigates the impact of applying IFRS 15 and the fair value measurement. Fair value accounting is appropriate when available reliable estimates of fair value. Compared with historical cost accounting, revenue recognition may be accelerated or postponed sales consisting of several transactions. Key financial indicators, turnover, financial result, rates of return are influenced by the application of IFRS 15, this standard impacts the annual financial statements.*

**Key words:** revenue, customer contracts, fair value.

**JEL:** M41, G32

### 1. Introduction

Under the influence of the crisis that started in 2008 , there have been profound structural developments affecting the global economy. Population growth , capital investments , changing organizational concepts , new technology applications are shaping a new structure for the global economy after year 2015 , opening new avenues of growth.

The aim of issuance of this standard was to formulate a common model for revenue

recognition of contracts with customers, regardless of the industry in which the entity that creates prerequisites for ensuring comparability [7].

The new standard IFRS 15 "Revenue from contracts with customers " was issued after a long period of time that international regulators of the IASB and US FASB have published the first version of the draft revenue recognition . Long terms in which the debate took place over project led many companies to postpone analysis of how they will be affected by the proposed new standard . It is natural that some market players to use the "we will wait and see " approach at the news that financial reporting standards to be substantially altered. After approval and publication , the new standard of one of the key issues of financial reporting and accounting - income - and will apply to all companies under IFRS and US GAAP.

### 2. Fair-value accounting and revenue recognition

Fair value accounting is an accounting system for assessing and recognizing assets, liabilities and equity reported in the balance sheet of companies. International Financial Reporting Standard IFRS 13 "Fair value measurements" defines fair value as [6]: the price to be received in exchange for the sale of assets or the price paid to liquidate a debt in an arm's length transaction between well-established vendors and buyers who are in an active market at the valuation date. When quoted prices in active markets for identical assets or liabilities are available, they should be used as amounts representing the fair value assessment (which are inputs for level 1). If not, should be used entry level 2 or level 3 inputs. Level 2 inputs apply in cases where there is or observable inputs, which include quoted prices for similar assets or liabilities in markets considered to be active,

quoted prices on identical or similar assets in inactive markets and other relevant market data. Level 3 inputs are unobservable inputs or data, for example mathematical models obtainable price. They should be used to obtain fair value measurement when observable inputs or data are not available[9].

The main rule of IFRS 15 "Revenue from contracts with customers" is that revenue/income recognition must describe the sell of goods or services to beneficiaries and evaluation of income should reflect the consideration to which the entity expects to be entitled in exchange for these goods and services. Revenue recognition is the result of going through the following 5 steps [7] :

1. Identify the contract with a client;
2. Identify the obligations arising from the contract;
3. Determine the transaction price;
4. Allocation of the transaction price between the obligations arising from the contract;
5. Recognition of income as the entity satisfies the requirement.

**Revenue may be recognized in a precise moment in time or over a period of time.** Companies that currently using the stage of completion method or percentage of completion method will have to reassess whether to recognize revenue over a longer period of time or at a moment in time. If the revenues are recognized over a longer period of time, the procedure in which progress towards completion is measured may change. Those companies now recognize revenue at a moment in time as may be determined to recognize gains over a longer period of time.

### **3. The process of identifying of the contract with a client**

The standard IFRS 15 defines a contract as an agreement between two or more parties that creates enforceable rights and obligations for the parties and states that the enforceability arising from the law applicable to the contract [7]. Contracts may be written on paper or electronically. In some cases, two or more contracts are combined and recognized as one contract with a customer. A contract with a customer also must meet all the following criteria [7]:

- the parties have approved the contract and agree to honor obligations,

- the company can identify what rights each party on the goods and services transferred,
- the company can identify the payment terms of goods and services transferred, d) the contract has commercial substance (eg changes associated risk, timing and amount of future cash flows of the company),
- it is probable that the entity entitled to collect the sum in exchange for goods and services exchanged client. This involves assessing the ability and willingness of the customer to pay at maturity.

The amount received from another client company may be recognized as revenue only if one of the following events occurs: a) the entity has no outstanding obligations to transfer goods or services to the client and all or 90% of the amount promised by the client has been received and is not returnable, b) the contract was executed, and the amount received from the customer is not refundable. Any amount of cash received from a client is recognized as a liability until the above conditions are met. If at first a contract qualifies for a contract to be accounted under IFRS 15, the company will review its classification unless there is evidence of a significant change in the facts and circumstances of the original. For example, if the client's ability to pay deteriorates significantly, the entity shall reassess whether it is possible to collect the amount you have the right to exchange goods and services remaining to be transferred to the client. Changing the contract is treated as a separate contract (unless further give rise to obligations and its price reflects the price at the time the amendment) or as an adjustment to the original contract represented by income approach method for adjusting income accrued or potential adaptation based on circumstances. [9]

### **4. Identify the obligations arising from the contract**

A contract includes obligations to sell goods or services to a client. [7] An obligation to sell a good or service is separable if it meets the following conditions:

- a) the customer may receive good or service transferred separately or in

combination with other resources at its disposal;

b) the entity promises to transfer goods or services the customer is identified separately from other promises under the contract.

#### Example

An IT company enters into a contract with a client under which transfers a license to a computer program performs installation services and provide technical support and update service for a period of four years. Installation services does not significantly modify the software. It is functional and free update service and support. Based on this information, the manufacturer may identify four obligations arising from the contract for the following goods and services:

- a. the license for the software,
- b. installation,
- c. update services,
- d. technical support services.

If an entity customer warranties, warranty determines the nature of its accounting treatment. If the customer can choose whether or not warranty or guarantee purchases give it an extra service, it is a separate obligation. If security means just that good delivered meets certain specified conditions, then there is a separate obligation.

### 5. Determine the transaction price

The company must determine the value calculation for the recognition of revenue, which is expected to be entitled in exchange for goods and services promised in the contract. [7] The transaction price includes an estimate of the effect of variables passage of time on the devaluation of money, if there is a significant interest component included in the price paid by the customer. For sales or royalties arising from the use of licenses or trademarks, company does not have to include these elements in price before the sale takes place.

The price may be a fixed amount or may vary depending on discounts, incentives, bonuses or other similar items [9]. The transaction price is adjusted for the effect of the passage of time on the purchasing power of money, if the contract contains an important component of interest included. If the price includes a variable component, the value is estimated using either technique

projected revenue value or the amount most likely. Estimated value of the variable elements will be included in the transaction price, unless it is probable that there will be a significant cancellation of accrued income when the associated variable elements will be removed [7].

Determine whether the significant components of interest included in price can be difficult for complex long-term contracts, where goods and services are delivered and payments are made throughout the duration of the contract. Company management will need to assess the time of delivery of goods and services and payments when and if the interval between two successive payments is greater than one year, this could be an indication that there is a significant component of interest. The amount of income recognized will be different if the receipts are made in advance or afterwards.

If the customer is not funded by the supplier, revenue is measured at fair value. If the entity is unable to determine fair value income amount will be estimated indirectly based on the selling price of goods and services transferred to the customer. If a customer contributes with goods and services to facilitate the execution of the contract by the company, shall be deemed get control of these products and services. In this case, goods and services received are considered non monetary items received from the client. The amounts paid by the client company as coupons, vouchers will be accounted for as reductions in transaction prices and therefore revenues, unless they are granted in exchange for other goods or services.

#### Hire-purchase

If collection capacity is uncertain , revenue will be recognized immediately because they were not fulfilled all the requirements of IFRS 15 is not ( or not yet ) undertaking likely to have economic benefits associated with the transaction . If a sale is registered , its value based on the present value of the rates will be calculated as the present value of premium rates using interest rate market . Interest element is recognized as obtained in proportion to time.

#### Example

On 1 January 2015, an enterprise of goods sold to a client who receive 10 million CU. Settlement conditions in the agreement are [9] :

- 50 % upon signing the contract;
- 30 % over one year;
- 20 % over two years

It is estimated that the enterprise customer could get a credit equivalent financial market at an interest rate of 10% per year. Nominal amounts to be received by the Company are :  
-5,000,000 signing the contract ;  
-3,000,000 over one year;  
- 2,000,000 over two years.

To determine the amount of such revenue from contract signing proceed to their update rate of 10%. The present value of future receipts =  $5.000.000 + 3.000.000/(1 + 10\%) + 2.000.000/(1 + 10\%)^2 = 9.380.165$  CU. [9]

Interest included in the sale price =  $10.000.000 - 9.380.165 = 619.835$  CU.

For interest allocation between the two years , we believe that the company credits the customer with the good price at the time of conclusion of the contract , less the advance payment received [9] , ie =  $9.380.165 - 5.000.000 = 4.380.165$  CU.

To determine the interest rate for 2015, apply to the amount previously determined rate =  $4.380.165 \times 10\% = 438.017$  CU.[9]

In 2016 the interest rate will be the sum of =  $(4.380.165 + 438.017 - 3.000.000) \times 10\% = 181.818$  .

On 1 January 2015, on credit sale :  
Debit Customers 10,000,000  
Credit Revenue from sale of goods 9,380,165  
Credit Deferred income 619,835

Collection of signing the contract :  
Debit Bank accounts 5,000,000  
Credit Customers 5,000,000

On 31 December 2015, the recording of interest for the year 2015:  
Debit Deferred income 438,017  
Credit Interest income 438,017

On 1 January 2016, receipt of the first encashment :  
Debit Bank accounts 3,000,000  
Credit Customers 3,000,000

On 31 December 2016, the recording of interest for the year 2016:  
Debit Deferred income 181,818  
Credit Interest income 181,818

On 1 January 2017, receipt of the final encashment :

Debit Bank accounts 2,000,000  
Credit Customers 2,000,000

## 6. Allocation of the transaction price between the obligations arising from the contract

If a contract contains several separate obligation, the entity shall allocate the transaction price of each individual obligations proportional to its price. [7] The best evidence for the obligations of each party price is the price at which the good or service is sold separately by the entity. If this is not available, the entity will have to estimate using an approach that maximizes the use of observable inputs.

### Example

An entity enters into a contract involving the sale of three products A, B and C for a total of 200,000 CU. Entity usually sells product A and, therefore, its price is directly observable. For products B and C are not directly observable prices and, therefore, are estimated , using a valuation adjustment based on the market price for the product B and that the estimated cost plus a margin for product C. Separate estimated prices for the products A, B and C are as follows:

Product A 100,000  
Product B 50,000  
The product C 150,000  
Total 300,000

Entity grants a reduction of 100,000 is allocated between the three products in proportion to their selling price. The selling price of 200,000 CU is allocated between the three products as follows:  
Product A  $100,000 / 300,000 \times 200,000$   
Product B  $50,000 / 300,000 \times 200,000$   
Product C  $150,000 / 300,000 \times 200,000$

## 7. Conclusions - Recognition of income

A general obligation of the contract is satisfied when control is transferred to the customer's goods or services. Control is the ability to use and decide to get most of the benefits remaining related goods or services transferred. [8] This approach differs from the previously advanced by IAS 18, under which revenue is recognized when all risks

and rewards of ownership of the goods are transferred to the customer. According to IAS 18, are set different criteria for the recognition of revenue from sale of goods and services revenues. The new standard proposes a different approach to determine whether revenue should be recognized at a particular time or over a period of time which applies to the sale of goods and rendering of services.

An obligation may be satisfied at a time (as is usually the transfer of goods) or over a period of time (as in the case of services).

Frequently, the cash is not charged immediately when there is a revenue generating transaction. More likely it is that cash to be received shortly thereafter, the delay being dependent on commercial terms practiced in society and industry. In such circumstances, by expanding commercial terms, the buyer's obligation need not be reduced because the effect is insignificant. However, if the customer has been 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 available cash for themselves, cash payments will be made in the future is worth less at the time of sale and must therefore be properly assessed.

This assessment is normally easy to do. However, there are cases less clear. For example, an enterprise may decide to give a customer his credit a longer period than normally practiced (which for example can be 30 days). In this case the company will have to update the value of future cash flows. The problem is to decide what interest rate is used in this update.

IFRS 15 is effective for accounting periods beginning on or after 1 January 2017 and applies to contracts signed after that date or that are not yet settled at this time. For comparative amounts, an entity may choose to use either the retrospective application or a modified approach which consists in recognizing the cumulative effect of applying the standard as an adjustment to the opening balance of retained earnings at the date of entry into force (1 January 2017), while that comparative amounts for December 2016 are not restated. [7]

In most cases, the means of payment in the form of cash or cash equivalents, and in this case the amount of revenue is the amount of cash or cash equivalents received or to be received. If the inflow of cash or cash equivalents is deferred (eg when granting a loan provider for a longer period), the fair value of the means of payment may be less than the cash received or receivable, because in this case the final amount to be collected includes an element of funding. The difference between the fair value and the nominal amount of the means of payment is recognized as interest income.

IFRS 15 will produce changes in accounting in particular long-term contracts with multiple elements. For example, a seller of cars which provide service with the sale will have to assess whether the goods and services transferred are distinct and recognize revenue when they are transferred to the customer. The telecommunications industry sales contracts may often provide a mobile phone and telephony services over a certain period (one year or two years)[10]. Under IFRS 15 transaction price which includes the amount paid to conclude the contract and monthly payments for telephone services is allocated between the sale of mobile phone and telephone services based on the relative weight of the individual price of each item. These entities will need to gather information about individual prices of various items. In some cases there is an observable selling price (eg no observable prices for upgrades and additional functionality for the software). If there are no observable prices, IFRS 15 allocation is based on estimated prices. For entities that sell software products, the nature of these programs and contractual terms will be analyzed carefully. Entities that sell real estate assemblies have difficulty believing active construction as a supply of services (for which revenue is recognized over a period) or sale of goods (for which revenue recognition is performed at a time). IFRS 15 details the criteria that must be met to recognize revenue over a period of time and when revenue should be recognized at some point without distinguishing between goods and services. Construction contracts and some contracts on production assets have to be reassessed in light of the new rules. Provisions relating to the amendment of contracts should be examined by entities in



the construction industry. IFRS 15 includes guidelines for assessment of income when consideration contains variables and determining the financing component (which may particularly affect long-term contracts where payments from customers and meet their obligations to occur at different times). The recognition of revenue from royalties can be affected by the new standard.

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## Fiscal Behavior Patterns

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### Abstract

*The tax culture of a state is unique and non-transferable. Fiscal behavior study from an intercultural perspective it became, especially after the tax solutions crisis, a primary need. The fact that citizens of different countries have different tax morality and reported varied the tax obligations, or that a change in the level of confidence in the effectiveness of the authorities should generate a change in conformation, should make us think. These facts are not just the result of an existing geographical climate, or of historical changes in the customary architecture of social, moral, religious but also economic policies and adopted measures, correctly or not, over time in these countries, all creating a sui generis tax culture.*

**KeyWords:** taxation, tax model, tax authority, fiscal behavior

**JEL Classification:** H2, H20

### 1. Introduction

In the anteroom of all economic approaches is sitting homo economicus as the smithian concept that it is perceived as perfectly rational, selfish, free competition and social, it opens the lane of theoretical and empirical developments that will enrich the fiscal behavior. The analysis of the personality of smithian entity in terms of taxation leads to the conclusion that these features do not check the conditions of

market economy. Thus, in theory, the perfect rationality of homo economicus would mean that each taxpayer to avoid paying tax obligations, and the generalization of this behavior would lead to imminent empty state treasury. Basically, the mentioned phenomenon occurs only partially, giving rise to tax evasion, and not total, most governments providing the public goods based on tax revenue. Perfect selfishness translates by the spread to all taxpayers of the free-riding behavior, but the experience shows that some taxpayers comply with the simple desire to support the state and other citizens. Perfect freedom is utopian, because the individual falls under tax laws, and non-compliance can attract even the loss of this right.

Also, the reality contradicts the validity of the last two features that the market economy is not characterized by perfect competition (ie, see fiscal monopolies) and most compliant taxpayers though their revenues are affected by existing tax levies. Despite refuting these assumptions in practical life, homo economicus remains the starting point in elaborating the economic models of fiscal behavior developed subsequently.

### 2. Looking the (behaviorist) model between rationality, egocentrism and competition

The economic models of tax compliance has caused and continues to cause intense criticism. The first reason is that they portray all taxpayers as rational maximizers of utility and interpret their behavior in response to

different benefits and financial losses. "The engagement of fiscal studies in arid assumptions on how taxpayers would act if they were convicted to be entirely rational, to behave like automatons aimed to maximize the utility, it can only postpone the realistic fiscal theories and useful political perspectives" [1]. The second reason lies in the invalidation of the predictions of economic models by numerous empirical research. Unlike the economic theory that taxpayers defraud the state budget, empirical studies suggest that most taxpayers are honest people [2] and that some taxpayers always conform, even when the risk of detection is low enough to commit tax fraud [3].

After an intermezzo in the rationality, it is time to proceed to the perimeter of the psyche logic. The shortcomings business models have opened the door to develop behavioral patterns of fiscal behavior. Built on the foundation of political and socio-psychological determinants of behavior, behavioral models taxpayer waives rational prototype and consider individuals who honor their obligations to the state or not, based on attitudes, norms, beliefs, feelings, social or cultural characteristics such as age, gender, race, religion etc. [4].

### **3. „Slippery slope” model**

According to the "slippery slope" model created by Kirchler, Hoelzl and Wahl, trust in authority and the power of authorities are two important factors that influence tax compliance.

Confidence in the authorities is "the general view of individuals and social groups according to which the tax authorities are benevolent and act for the benefit of the common good" and the power of authorities is defined as "perception of the taxpayers on the potential of tax agents to detect tax fraud and punish it" [4]. Both confidence and strength increase tax compliance levels, but its quality varies: increase confidence in authority causes voluntary compliance; increasing power causes imposed or forced compliance.

If both the trust in authority and the power of authorities are minimal, taxpayers are tempted to maximize revenue through fraud. As a result, the level of tax compliance is

minimal. On the left edge of the model over the size of the power, at a minimum level of trust in authorities, the tax compliance increased by the increased power of authorities to stop tax fraud.

Increased authorities power generates therefore forced compliance. On the right edge of the model, along the dimension of trust, at a minimum level of power, the level of tax compliance increased by the increasing trust in authorities which fosters cooperation. Thus, the increased confidence in authority generates voluntary compliance. Moreover, the maximum level of tax compliance - regardless of its nature is obtained with high confidence and / or high power.

According to the model "slippery slope", the interaction between taxpayers and authorities gives rise to two types of climates, a synergistic one and an antagonistic one. Climates vary by taxpayers' perceptions on levels of trust in authority and of authorities power. A power increase can be perceived positively by the payers of tax obligations. If they see in authorities approach a legitimate attempt to stop the behavior of non-compliance, confidence will gradually increase. As a result, the amount of tax revenue collected will increase, and the climate is synergistic. The authorities approach of power increase can be charged negatively, too (as an illegitimate attempt to spol the population), situation in which taxpayers may lose confidence in the authorities. Accordingly, the amount of the tax revenue decreases, the climate becoming antagonist. The dynamics of the two climates claims the need to separate the concepts of legitimate power of the authorities and coercive power of the authorities. The first is accepted voluntarily by taxpayers due to its positive effects, while the second is rejected because of its stringent. Typically, power growth is perceived coercive in the antagonist climate, and legitimate in the synergistic climate. In a study on confidence and strength, Choudhury noted that the variable power diminishes confidence level where authorities are guided by obsolete laws and rules and increase confidence when authorities are acting properly in the spirit and letter of the law.

### **4. The Australian Taxation Office (ATO) model**

Former US baseball star Lawrence Peter "Yogi" Berra used to say: "In theory there is no difference between theory and practice. Empirical research in the field of fiscal behavior invalidated the classical model predictions of tax fraud [5], showing that most taxpayers behaving compliance (either voluntary or forced). These research results were not without echo among authorities, that have taken steps to create models of rising long-term compliance. In this regard, the tax authorities in Australia have proven to be extremely responsive and developed the model Australian Taxation Office (ATO), starting from the concept of "motivational positions" created by Valerie Braithwaite in 2003.

Following repeated interactions with the authorities, payers of tax obligations develop attitudes and opinions that guide them when deciding whether or not to comply with tax laws. Therefore, other influence factors reflecting the social distance between tax authorities and taxpayers are motivational positions. The positions are "interconnected systems of views and attitudes acquired consciously and openly shared with others", the attitudes that tax authorities' representatives encountered among taxpayers when they amend the change of their behavior, or finding a plausible explanation for a certain behavior [5]. After a careful consideration of the claims associated with each motivational position, it notes that both the "commitment" and the "surrender" expresses a relatively low social distance between taxpayers and authorities, while "resistance", "disengagement" or "strategic game" expresses significant social distances.

Therefore, the "commitment" is the motivational posture belonging to tax payers inclined to fiscal comply due to strong ethical and moral views, and the "surrender" is the motivational position of taxpayers inclined to acknowledge the legitimacy of the authorities and cooperate with them.

In contrast, the "resistance" is the expression of taxpayer who dispute the legitimacy of the authorities, "disengagement" is the voice of tax obligations payer crying to be excluded from the system, and the "strategic game" portrays taxpayer focused on identifying legislative breaches. If we refer to the fiscal behavior

typology, then we can say that the first two positions fall into the pattern of motivational voluntary compliance, "resistance" is the radiance of imposed compliance, and the "disengagement" and "strategic game" can be joined to lawful tax evasion and tax fraud. Therefore, the model ATO is a happy combination of empirical research results and fiscal practices experience, having a structure in which transpire both authorities and researchers' efforts to develop a culture of voluntary compliance among taxpayers. Reforming the approach of taxpayers was necessary because Australian tax authorities found that conventional methods of coercion (ie, tax inspections, fines, prosecution) are not sufficient to increase tax revenue [6].

Australian IRS took four of the five motivational positions recommended by Braithwaite and attached the strategies and appropriate regulatory constraint. The basic principle applied is: use the same approach for all taxpayers is not effective; each class of taxpayer must be addressed according to fiscal behavior displayed. Therefore, the behavior of non-compliance is sanctioned increasingly more severe with increasing social distance between authorities and taxpayers. Tax Compliance (either voluntary or forced) is facilitated or assisted, where appropriate, while tax evasion or tax avoidance are lawful stopped by detection and appropriate sanctions.

## **5. The New Zealand Inland Revenue model**

"Verba docent, exempla trahunt" Latin said. New Zealand tax authorities appear to have applied this advice and successfully followed the example of their colleagues from Australia, creating fiscal behavior model.

The New Zealand Inland Revenue model is similar to ATO, further comprising BISEP or the list of the most important factors (in the view of the New Zealand authorities) that shape fiscal behavior: Business, Industry, sociology, economics and psychology. The list was drawn up in order to investigate the reasons on which taxpayers develop their attitudes to tax compliance and even fiscal behavior. According to Morris and Lonsdale, BISEP is a valuable source for identifying

compliance or noncompliance reasons of taxpayers [7].

## 6. Conclusions

Economic models, alongside the behavioral, constitutes an ingenious "duplex" of fiscal behavior. Although in 1968 and 1972 researchers like Becker, Allingham and Sandmo drew up a floor plan of the building, it only pretended to be done and completed. After 40 years in which the plan was opened in pieces by dozens of authors and reworked *da capo* hoping to reach a *fine*, the edifice of fiscal behavior patterns is not completed; it is under construction of some rooms or, who knows, some new approach floors on the grounds that they are what the building lacks, to be in use definitive.

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## Health Insurance Related Leaves and Allowances: Romania vs Sweden

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### Abstract

*This paper proposes an analysis of overall health systems in Romania and Sweden. Through a comparative approach of the two systems, the purpose of this article is to highlight the benefits of medical services provided by the public health sector institutions in correlation with the levels of expenditure allocated by the two governments. The main result point to the fact that Romania, by allocating a small percentage of GDP to finance the health system, are facing problems such as migration of medical personnel, lack of medicines, equipment and medical devices with inadequate funding of prevention programs, etc. These results indicate the need to reform towards public health system.*

**KeyWords:** allowances, state social insurance, tax system

**JEL Classification:** H5, H51

### 1. Introduction

Since health is a fundamental value for the individual and society as a resource to the development of social life in its entirety, any society tends to value health as a functional resource and to organize a system of protection against the disease, organized so as to provide detection, caring and restoring those affected. Health financing systems in the Member States of the EU are always subject to changes, these countries being continuously evolving and changing

regarding the necessary resources for healing the disease.

### 2. Leaves and state social insurance payments in Romania

Currently, those insured through social security benefit from a number of allowances, benefits and sick leave when needed.

In Romania, under Government Emergency Ordinance no. 158/17 November 2005 on leaves and social insurance payments, policyholders can now benefit from: medical leave and allowances for temporary disability caused by common illnesses or accidents outside work, medical leave and allowances for illness prevention and recovery work capacity (in case of work accidents and occupational illnesses), medical leave and allowances for maternity, medical leave and allowances for child care and medical leave and allowances for maternal risk. To be eligible for such leave and allowances (except those for maternal risk), the insured must have contributed at least one month in the 12 months preceding the month for granting the medical leave. It should be noted that this minimum period of contribution is associated with the periods the insured person was in a position of disability, he attended full time university courses (with the condition to finalize those courses) or he was in parental leave and he received the related allowance. Sick leave and allowances related contribution is 0.85% and it is applied on the wage fund of the month for which the allowance is calculated, or on unemployment

(on the unemployed case). The basis for contribution holidays and allowances can not be greater than the product of the number of insured and 12 minimum salaries. This contribution is borne by the policyholders and not the employers, for the following categories: members, limited partners, shareholders, directors, managers, members of family associations and individuals authorized to perform independent activities. The basis for contribution for the above mentioned persons shall not exceed 12 minimum salaries guaranteed in payment [1]. According to Government Decision no. 23/2013 for establishing minimum gross salary guaranteed payment, until 1 July 2013 it will be 750 RON, and 800 RON thereafter.

For example, for an employer in Romania with seven employees, the calculation basis for the contribution to medical leave and allowances can not exceed the amount of 63.000 RON ( $12 * 750 * 7$ ). This means that the contribution of 0.85% will be applied only to funds not exceeding 63.000 RON, in the month for which it is calculated. Suppose for April 2013, the total wage bill for an employer with seven employees was 24,000 EUR (amount less than the calculated maximum 63,000 USD). In this case, the employer will pay for April 204 RON for medical leave and allowances ( $24,000 * 0.85\%$ ). For a manager who has signed a management contract, the calculation basis for the application of 0.85% sick leave related contribution and allowances may not exceed 9.000 RON ( $12 * \text{minimum gross salary guaranteed payment of } 750 \text{ USD}$ ). This means that, if we assume that in April the manager had revenues of 9.500 RON, the 0.85% will be applied only for the amount of 9,000 EUR (will pay 76,5 RON =  $9.000 * 0.85\%$  and not 80,75 RON =  $9.500 * 0.85\%$ ).

### 3. State Social Insurance in Sweden

In Sweden, the health insurance brings a number of benefits related to medical leave and allowances. The big difference with Romania is that they are designed so as to cover the needs of all residents (not related only to certain categories of persons considered insured, as in Romania). All the benefits of social health insurance are included in taxes and fees paid by residents, some of which are guaranteed by the state,

thus having related revenue. Thus, the 31.42% of the salary paid by employers in Sweden in 2012, local taxes paid by resident, and the 28.97% paid by freelancers [2], guarantees the Swedes, in addition to treatments, medicines, consultations etc. the disease and disability cash benefits for sickness, sick pay, compensation activity, guaranteed compensation for those with low incomes or no income, compensation for occupational diseases and accidents at work, rehabilitation allowance, maternity and paternity leave, maternity and child rearing benefits. Another difference from Romania is the lack of a minimum income grant for certain categories of benefits (eg if sickness allowance, the only condition imposed is that people in the first month of employment, have been entered on the payroll at least 2 weeks). Instead, for sickness benefits in cash for example, the accepted annual minimum income must be equal at least 24% of the current price base (mentioned by the European Commission as SEK 44,000 for 2012). So those who want to benefit at a time of sickness benefit in cash, must have earned income of at least SEK 10,560. Also, the person who wishes to obtain cash sickness benefit should be reduced as work capacity due to illness by 25%.

### 4. Differences between social insurance system in Romania and Sweden

For a better understanding of the differences between sick leave and allowances for Romanian insured persons compared to the Swedish ones, will further exemplify the main differences between the manner of their delivery and the benefits achieved by the insured [3].

The leave and the temporary disability allowance

The condition for granting: in Romania, contribution for 1 month in the last 12 months preceding the illness; in Sweden, the existence of the insured on the payroll of the employer for at least 2 weeks.

Granting period: in Romania, temporary disability allowance is granted for at most 180 days a year. After 91 days, the extension is only in social insurance expert physician's approval; in Sweden, sickness allowance is granted for a maximum of 14 days of illness, and if disease persists after this period, there

are granted benefits in cash for at most 364 days within a period of 15 months. With the agreement of the Swedish Social Insurance Agency, the period may be extended to 550 days.

Extending the normal period for granting: in Romania, temporary disability allowance can extend beyond 180 days per year for serious diseases: tuberculosis, malignancies, AIDS. If the period expires (irrespective of their length), primary doctor or specialist may propose individual retirement due to illness; in Sweden, where the tumor or neurological diseases, it can turn for continued payment of sickness benefits in cash. After the end of the period of sickness cash benefits, if it finds permanent work incapacity, the insured receive compensation for illness (minimum age for the granting of which is 30 years).

Waiting period: in Romania, sick leave and temporary disability allowance is granted from the first day of illness; in Sweden, both sick leave and sickness allowance are granted after a waiting period of one day (except the unemployed, those on maternity / child rearing, the ones receiving benefits from the first day of illness and self-employed who can choose a waiting period of 7, 14, 30, 60 or 90 days).

Who supports payments: in Romania, for the first 5 days of illness, temporary disability allowance is paid by the employer, then the National Unique Fund of Health Insurance (FNUASS). Exceptions are unemployed, shareholders, limited partners, directors, managers, members of family associations and self-employed, whose compensation is borne solely by FNUASS; in Sweden since the 2nd day of illness until the day 14th, sickness allowance is payable by the employer. Subsequently, if the disease persists, sickness benefits in cash are borne by the Social Insurance Agency (except registered unemployed receiving from the 2nd day of sickness benefits in cash directly from the Social Insurance Agency).

Value of benefits: in Romania, temporary disability allowance is calculated for each month as 75% of average monthly income for the last 6 months due to the 12 making up the contribution period (thus, for an average monthly income in the last 6 months 950 RON, monthly allowance for temporary work incapacity will be 712.5 USD); in Sweden,

sickness allowance is 80% of the revenues they would have received if the insured didn't get sick, and the sickness benefits in cash represents 80% of the average income estimated for six months in a row (this income must be less than the maximum limit fixed [4]) multiplied by 0.97 (for example, for a person in the first 14 days of illness had an estimated 4,000 SEK, sickness allowance for this period will be SEK 3,200. Since the period of sickness exceeds 14 days and estimated revenue for 6 consecutive months were SEK 60,000, cash sickness that will benefit the person in question for the analysed period will be 46,560 crowns Swedish).

Regarding maternity leave, in Romania it is intended only to mothers, it requires a minimum contribution internship of one month in the 12 months preceding the grant of leave and may be granted for 120 days (60 days before birth, 60 days after birth). For the entire period, the mother receives maternity allowance equal to 85% of the average salary for the last 6 months worked. The minimum amount of maternity allowance is 600 RON, and the maximum value 4.000 RON. In Sweden, maternity allowance is granted to mother holding an applicant job to load and can not be transferred to a less applicant post. Maternity allowance is granted from 60 days before the estimated date of birth, but is paid for no more than 50 days. The allowance is calculated as equal to cash sickness benefit ( $97\% * 80\% * \text{based on income}$ ), the maximum is 330,000 SEK.

Holidays and child allowance in Romania is granted for a maximum of three births, for the parent who lives with the child, had taxable income in the 12 months preceding the birth and has all tax obligations to local budgets paid to date. Parental leave and child rearing allowance may be granted for a period of one year or two. Calculated and paid monthly allowance represents 75% of average net income realized by the parent in the last 12 months prior to birth. This amount is increased for each child born, starting with the second. In Sweden however, the period for granting parental leave allowance is 480 days with an extension of 180 days for each child in multiple births. This period can be divided into several periods until the born baby ends first school year. In this way, the parent in whose care the child is, can participate more actively in his education, the



first 7 years of life being crucial in shaping his personality. Also, parents may choose to raise the child together, each receiving the allowance for 240 days of the 480, or one of them can give each other up the whole time. Even if the father decides to stay in parental leave, the mother will receive a compensation in the first 4 weeks after childbirth. The Swedish state through the Social Insurance Agency offers a guaranteed child-raising allowance of 180 SEK / day, for those who do not qualify for cash sickness benefit (income less than 10,560 crowns weld the last 12 months). For the remaining policyholders, the parental allowance for the first 390 days of the leave is equal to sickness benefits in cash which would fit the parent ( $97\% * 80\% * \text{base of income}$ ) and for the remaining 90 days is paid a guaranteed allowance of 180 SEK / day.

## 5. Conclusions

Small budgets allocated to public health can lead to first-class medical services. The financing of the health system in Romania is mainly based on contributions, and additional on transfers from the state budget. Allocating a percentage of about 3% of GDP (among the lowest in the EU), it determines the quality sometimes inadequate of the public health system, migration of medical professionals to the private sector or abroad, under-funding prevention programs. All this leads to the need to reform the public health system in Romania regarding the efficiency of quality health care delivery. It also requires the government to consider health and education as national priorities and to allocate appropriate budgets to these areas.

The health system in Sweden is mainly financed from general taxes and duties. Swedish central government is responsible for overall health policy and provides grants to regional and municipal governments to support health care services. Swedish public health system is in constant recasting in order to improve the quality of care and access to the system by a close monitoring of costs.

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## Possibilities of Using Simple Random Survey in Audit

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### Abstract

*The success of any everyday life activity is related to the consumption of resources that it involves. The audit needs that too and uses sampling methods in drawing conclusions concerning the entire population researched.*

*The article presents the possibilities of using simple random survey in the audit of accounting documents and records.*

**Key words:** audit, sample, random survey

**Classification J.E.L.:** M42

### 1. Introduction

The survey is a process by which the researcher can draw conclusions regarding an entire population by studying only a part of it. The advantages of survey research in audit refers to economy – by low cost, opportunity - issuing an opinion in a fast and meticulous way – because by reducing the number of studied elements we can perform a depth analysis on each of them.

The survey research also presents limits which are mainly determined by the way a representative sample is obtained, the sampling errors, the desired results accuracy and of the risk taken [4].

The use of sampling in audit is allowed by International Standards on Auditing (ISA 530) [2], but the auditor is the one choosing the sampling methods.

Next we will present the simple random sampling and its applicability in audit.

### 2. The repeated simple random survey

We consider that the total of accounting records and the primary documents from a financial year are subject to audit.

Statistically, the primary documents will be analyzed under the following aspects:

- if the documents present deviations of form and content, as it follows:

$$x_{doc} = \begin{cases} 1, & \text{if the document is correctly drawn} \\ 0, & \text{if the document is incorrectly drawn} \end{cases}$$

- if the documents present deviations regarding the amounts presented, as it follows:

$$y_{doc} = [\text{correct value} - \text{the value from the document}]$$

The accounting records will be analyzed too under two aspects:

- qualitative: if the accounting record is correct from all points of view:

$$x_{ic} = \begin{cases} 1, & \text{the accounting record is correct} \\ 0, & \text{the accounting record is incorrect} \end{cases}$$

- quantitatively: regarding the amount corresponding to the accounting record:

$$y_{ic} = [\text{correct value} - \text{the value from the acc. record}]$$

At the beginning of the research the auditor will establish the precision parameters ( $R$  and  $\alpha$ ) and based on those he will determine the size of the sample;  $\alpha=95\%$ ,  $\alpha=99\%$  and  $R<5\%$  are considered to be satisfactory.

The calculation of the sample size will be made after formula [1]:

$$n = \frac{Z_{\alpha}^2 \cdot s^2}{\Delta_x^2}, \text{ where } \Delta_x = \frac{R \cdot \bar{x}}{100}$$

The average and dispersion ( $\bar{x}$  and  $s^2$ ) intervening in formulas are known from previous estimations or are calculated based on a low volume pre-investigation and  $Z_{\alpha}$  is a constant which depends on probability.

It is considered the universe population formed of primary documents and accounting records from 2014 at S.C. Example S.R.L. The statistical observation is made over them in relation to the variables

$x_{doc}$ ,  $x_{ic}$ ,  $y_{doc}$ ,  $y_{ic}$ , defined above. The number of documents from the financial year is of 30.000 and that of accounting records is of 14.000. The researcher establishes the precision parameters at  $\alpha = 95\%$  and  $R = 1\%$ .

We establish the range in which the average size of error and the average proportion of error are situated for the considered variables. Because we don't know  $\bar{x}$  and  $s^2$  from previous estimations we will determine them based on a pre-investigation of low volume. We investigate 90 statistical units. We observe the population of volume  $n_{doc} = 90$  documents and  $n_{ic} = 90$  accounting records; we can also take  $n_{doc} \neq n_{ic}$ .

The results of the pre-investigation were:

$$x_{doc} : \begin{pmatrix} 1 & 0 \\ 86 & 4 \end{pmatrix}$$

$$y_{doc} : \begin{pmatrix} 0 & 400 & 562 & 1.100 \\ 87 & 1 & 1 & 1 \end{pmatrix}$$

$$x_{ic} : \begin{pmatrix} 1 & 0 \\ 85 & 5 \end{pmatrix}$$

$$y_{ic} : \begin{pmatrix} 0 & 400 & 730 & 750 & 821 & 1.510 \\ 85 & 1 & 1 & 1 & 1 & 1 \end{pmatrix}$$

In the case of audit of documents, if we want to know the number of documents incorrectly drawn but also the size of error in the documents, in order to calculate the size of the sample we will determine the coefficient of variation (CV) corresponding to variables  $x_{doc}$  and  $y_{doc}$ . Based on this coefficient we will choose the dispersion and the average of one of the variables, which will be used in the formula for determining the size of the sample, as it follows:

- if  $CV_{x_{doc}} < CV_{y_{doc}}$ , the following formula for determining the size of the sample will be used:

$$n = \frac{Z_{\alpha}^2 \cdot s_{y_{doc}}^2}{\Delta y_{doc}^2}$$

- otherwise, we will calculate the size of the sample as it follows:

$$n = \frac{Z_{\alpha}^2 \cdot \sigma_{w_{doc}}^2}{\Delta^2 w_{doc}}$$

It can be observed that, from the two variables  $x_{doc}$  and  $y_{doc}$ , we choose the variable with a higher variation for calculating the size of the sample. We have to mention that, for the survey not to generate high representativeness error, the coefficient of variation calculated for both variables has to be less than 35%. If it exceeds this value, it is considered that the observed population is not homogeneous and it is recommended the use of simple random survey.

The coefficient of variation is a measure of relative dispersion which describes the average quadratic deviation as a percentage from arithmetic average. It allows us to compare the spread of individual values of several characteristics (variables) which are not expressed in the same unit (in this case a qualitative variable with correct or incorrect values, and a quantitative variable with monetary values expressing the size of error)

For variable  $x_{doc}$ , we have:

- the average:  $w_{doc} = 0,9555$
- the dispersion  $\sigma_{w_{doc}}^2 = w_{doc}(1 - w_{doc}) = 0,0425$
- the coefficient of variation:

$$CV_{x_{doc}} = \frac{\sigma_{w_{doc}}}{w_{doc}} \times 100 = 21,58\%$$

For variable  $y_{doc}$ , we have:

- the average:  $\bar{y}_{doc} = 22,911$
- the dispersion:  $s_{y_{doc}}^2 \cong 18.882,4792$
- the coefficient of variation:

$$CV_{y_{doc}} = \frac{s_{y_{doc}}}{\bar{y}_{doc}} \times 100 = 599\%$$

Because  $CV_{y_{doc}} = 599\%$ , which is a very high value, it is not recommended to use this type of survey for this variable because the values are miscellaneous. The auditor can decide to use simple random survey for variable  $x_{doc}$ , to calculate the error proportion in documents, because for this one  $CV_{x_{doc}} = 21,58\% (< 35\%)$ .

So, he will determine the sample volume using the formula:

$$n_{x_{doc}} = \frac{Z_{\alpha}^2 \cdot \sigma_{w_{doc}}^2}{s_{w_{doc}}^2},$$

where permitted error limit:

$$s_{w_{doc}} = \frac{R \cdot w_{doc}}{100} = 0,009555, n_{x_{doc}} = 1.788$$

Once the volume of the sample is determined (1.788 documents), we continue with the actual observation of the documents. The observation is being made for variable  $x_{doc}$ , regarding the number of documents correctly drawn and the number of those which contain errors; the choice of documents from the sample will be made using the table of random numbers

The results of the observation were:

$$x_{doc} : \begin{pmatrix} 1 & 0 \\ 1.710 & 78 \end{pmatrix}$$

The data collected will be processed by determining:

- average survey error:

$$\hat{\sigma}_{w_{doc}} = \sqrt{\frac{w_{doc}(1-w_{doc})}{n}} \text{ or}$$

$$\hat{\sigma}_{w_{doc}} = \frac{\sqrt{\sigma_{w_{doc}}^2}}{\sqrt{n}} = \frac{\sigma_{w_{doc}}}{\sqrt{n}}$$

$$w_{doc} = 0,95638$$

$$\sigma_{w_{doc}}^2 = w_{doc}(1-w_{doc}) = 0,04172$$

$$\sigma_{w_{doc}} = \sqrt{\sigma_{w_{doc}}^2} = 0,20425$$

$$\hat{\sigma}_{w_{doc}} = 0,00483$$

- permitted error limit:

$$s_{w_{doc}} = Z_{\alpha} \cdot \hat{\sigma}_{w_{doc}}, \quad s_{w_{doc}} = 0,00947$$

- confidence interval, meaning the area where the average proportion of documents correctly drawn is, with a probability of 95%:

$$P(w_{doc} - s_{w_{doc}} < p < w_{doc} + s_{w_{doc}}) = 95\%$$

$$P(0,94691 < p < 0,96585) = 95\%$$

We determine the interval where the number of documents correctly drawn is, multiplying, in the above relation, all the members by 30.000 ( $N$ , the total number of documents) and we obtain:

$$28.407 < p \times N < 28.976$$

We can verify if the precision parameter  $R=1\%$  was kept in carrying out the survey

$$R = \frac{s_{w_{doc}}}{w_{doc}} \times 100 = 0,99\%$$

$R < 1\%$ , so the survey was carried out in the parameters set ( $R=1\%$ ,  $\alpha=95\%$ ).

We can establish the number of documents incorrectly drawn by subtracting from the total number of documents (30.000) the established interval limits for the documents correctly drawn and we obtain the confidence interval for the documents incorrectly drawn (1.024, 1.593). The same is being done for the proportion of documents incorrectly drawn:  $100\% - (94,69\%; 96,59\%)$  and we obtain the interval (5,31%; 3,41%) which means that the proportion of documents incorrectly drawn from the total of 30.000 documents is between 3,41% - 5,31%, with a probability of 95%.

For the control of accounting records the specifications stay the same as in the case of documents.

For variable  $x_{ic}$ , we have:

- the average:  $w_{ic} = 0,9444$

- the dispersion:  $\sigma_{w_{ic}}^2 = w_{ic}(1-w_{ic}) = 0,052$

- the coefficient of variation:

$$CV_{x_{ic}} = \frac{\sigma_{w_{ic}}}{w_{ic}} \times 100 = 24,26\%$$

For variable  $y_{ic}$ , we have:

- the average:  $\bar{y}_{ic} = 46,788$

- the dispersion – because we deal with a simple series the dispersion formula can be written as it follows:

$$s_{y_{ic}}^2 = \frac{\sum_{i=1}^n y_{ic}^2}{n} - \bar{y}_{ic}^2, \text{ meaning:}$$

$$s_{y_{ic}}^2 = 44.584,517$$

- the coefficient of variation:

$$CV_{y_{ic}} = \frac{s_{y_{ic}}}{\bar{y}_{ic}} \times 100 = 451,28\%$$

It can be observed that in this case the quantitative variable shows a very high variation, so the simple random survey can't be applied. But the statistic offers the possibility of grouping the values (from the quantitative variable) in intervals (usually of equal length. In our case, depending on the number of intervals (or the length of the interval) we will have (in hundred lei):

$$y_{ic} : \begin{pmatrix} [0-4] & (4-8] & (8-12] & [12-16) \\ 86 & 2 & 1 & 1 \end{pmatrix}$$

Calculating in this case, we obtain:

- the average:  $\bar{y}_{ic} = 231,111$
- the dispersion:  $s_{y_{ic}}^2 = 25.698,775$

so we have  $CV_{y_{ic}} = \frac{\sqrt{s_{y_{ic}}^2}}{\bar{y}_{ic}} \times 100 = 69,36\%$

We observe that, by grouping, the variation decreased to the level of 69,36%, but, because we have a percentage higher than 35%, we cant apply the simple random survey. If the auditor will consider that grouping in three intervals is enough, it will be obtained (in hudred lei):

$$y_{ic} : \begin{pmatrix} [0-5,5) & [5,5-11) & [11-16,5) \\ 86 & 3 & 1 \end{pmatrix}$$

$$y_{\hat{ic}} = 305,556 \quad s_{y_{\hat{ic}}}^2 = 22.594$$

$$CV_{y_{\hat{ic}}} = 49,19\%$$

It is observed that, by reducing the number of intervals in grouping the data, the coefficient of variation is reduced. Its value stays higher than the threshold of 35 % though. Of course, in statistics, for obtaining the most conclusive results, the data grouping is made in as many intervals as possible.

In the case of the audit of the size of error in accounting documents and records, the auditor can force the grouping in intervals, by reducing them as much as posible, if he considers that this doesn't affect to much the obtained results.

If in audit of accounting records the grouping will be made in two intervals, we will have:

$$y_{ic} : \begin{pmatrix} [0-800) & [800-1.600) \\ 88 & 2 \end{pmatrix}$$

$$y_{ic} = 417,778 \quad s_{y_{ic}}^2 = 13.906,166$$

$$CV_{y_{ic}} = 28.22\%$$

In the given case, in the audit of accounting records, if the the grouping of the size of error in records is not done in intervals (initial case), the coefficient of variation for variable  $y_{ic}$  is 451,28% so the simple random survey won't be applied. This survey can be applied for the control of the number of accounting records incorrectly drawn because  $CV_{x_{ic}} = 24,26\%$  (<35%), so the population is homogenous. If, however, the auditor will consider that, a grouping of variable data  $y_{ic}$  in two intervals

is enough, we will have:  $CV_{y_{ic}} = 28,22\%$  (<35%) and  $CV_{y_{ic}} > CV_{x_{ic}}$  so for choosing the volume of the sample we will use the formula:

$$n = \frac{Z^2 \times s_{y_{ic}}^2}{\Delta_{y_{ic}}^2}$$

$$\Delta_{y_{ic}}^2 = \frac{R \times \bar{y}_{ic}}{100} = 4,17778, \quad n = 3.061$$

The volume of the sample being 3.061 accounting records, their observation will be made in the case of variables  $x_{ic}$  (the number of accounting records correctly or incorrectly drawn) and  $y_{ic}$  ( the size of error in accounting records).

The results of the observation were:

- for variable  $x_{ic} : \begin{pmatrix} 1 & 0 \\ 2.956 & 105 \end{pmatrix}$

$$w_{ic} = 0,9657$$

$$\sigma_{w_{ic}}^2 = w_{ic}(1 - w_{ic}) = 0,0331$$

$$\sigma_{w_{ic}} \cong 0,181998$$

- average survey error:  $\hat{\sigma}_{w_{ic}} = 0,00329$

- confidence error limit:  $\Delta_{w_{ic}} = 0,00645$

- confidence interval:

$$P(0,96925 < p < 0,97215) = 95\%$$

so the average proportion of the error in accounting records is between (2,79%-4,08%).

The number of accounting records incorrectly drawn will be determined by multiplying by 14.000 in the relation  $0,96925 < p < 0,97215$  and by subtracting them from 14.000 obtaining the interval (390-570), and for the number of documents correctly drawn we have the interval (13.430-13.610). We verify if the precision parameter  $R=1\%$  stayed the same in carrying out the survey:

$$R = \frac{\Delta_{w_{ic}}}{w_{ic}} \times 100 = 0,67\% (< 1\%)$$

- for variable

$$y_{ic} = \begin{pmatrix} [0-8) & [8-16) & [16-24) \\ 3.004 & 47 & 10 \end{pmatrix} \text{ hundred lei.}$$

$$\bar{y}_{ic} = 417,51 s_{y_{ic}}^2 = 17.883,51 s_{y_{ic}} = 133,73$$

- average survey error:  $\sigma_{\bar{y}_{ic}} = 2,41713$
- confidence error limit:  $\Delta_{\bar{y}_{ic}} = 4,73757$
- confidence interval:

$$P(412,7724 < m_{y_{ic}} < 422,2476) = 95\%$$

so the average of the error from records is in the interval (412.772, 422.247).

We verify if the precision parameter  $R=1\%$  stayed the same in carrying out the survey:

$$R = \frac{\Delta_{\bar{y}_{ic}}}{\bar{y}_{ic}} \times 100 = 1,13\% (> 1\%),$$

so the precision of 1% was exceeded, but the survey is still representative because  $R < 5\%$ .

### 3. The unrepeated simple random survey

In the case of this type of survey the volume of the sample will be calculated after formula [3]:

$$n = \frac{Z_{\alpha}^2 \cdot s^2}{\Delta_x^2 + \frac{Z_{\alpha}^2 \cdot s^2}{N}} \text{ for quantitative variable}$$

and

$$n = \frac{Z_{\alpha}^2 \cdot \sigma_w^2}{\Delta_w^2 + \frac{Z_{\alpha}^2 \cdot \sigma_w^2}{N}} \text{ for alternative variable.}$$

We consider the same example as in the case of repeated simple random survey; the average and the dispersion for  $x_{doc}$  and  $y_{ic}$  are known from previous estimations, the variation within these variables is the highest

$$\left( CV_{x_{doc}} > CV_{y_{doc}}, CV_{x_{doc}} < 35\% \text{ and } CV_{y_{doc}} > CV_{x_{doc}}, CV_{y_{doc}} < 35\% \right).$$

We determine the sample volume in the case of documents' control using the following formula:

$$n = \frac{Z_{\alpha}^2 \cdot \sigma_{w_{doc}}^2}{\Delta_{w_{doc}}^2 + \frac{Z_{\alpha}^2 \cdot \sigma_{w_{doc}}^2}{N_{doc}}}, \quad n = 1.688$$

We observe that, compared with repeated simple random survey, the volume of the sample decreased (from 1.788 to 1.688) in the same precision conditions ( $\alpha=95\%$ ,  $R=1\%$ ).

We observe the sample of 1.688 documents and we obtain:

$$\text{- for variable } x_{doc} = \begin{pmatrix} 1 & 0 \\ 1.618 & 70 \end{pmatrix}$$

$$w_{doc} = 0,95853 \quad \sigma_{w_{doc}}^2 = 0,03975$$

$$\sigma_{w_{doc}} = 0,19937462$$

- average survey error:

$$\hat{\sigma}_{w_{doc}} = \sqrt{\frac{\sigma_{w_{doc}}^2}{n}} \times \sqrt{1 - \frac{n}{N}} = 0,0047142$$

- permitted error limit:  $\Delta_{w_{doc}} = Z_{\alpha} \cdot \hat{\sigma}_{w_{doc}}$

$$\Delta_{w_{doc}} = 0,0092398$$

- confidence interval:

$$P(0,9493 < p < 0,9678) = 95\%$$

so the proportion of documents correctly drawn is in the interval (94,93% - 96,78%), and of those incorrectly drawn in the interval (3,22% - 5,07%). Multiplying by 30.000 we obtain the number of documents correctly drawn in the interval (28.479, 29.034) and the interval for the number of documents incorrectly drawn (966, 1.521), with a probability of 95%.

We calculate the precision parameter  $R$

$$\text{and we obtain: } R = \frac{s_{w_{doc}}}{w_{doc}} \times 100 = 0,96\%$$

It can be observed that in the case of this type of survey the indicators that express the error in survey are smaller than the same indicators within the repeated simple random survey.

- for variable

$$y_{doc} = \begin{pmatrix} [0-3] & [6-12] & [12-18] \\ 1.640 & 38 & 10 \end{pmatrix} \text{ hundred lei.}$$

$$\bar{y}_{doc} = 174,88 s_{y_{doc}}^2 = 22.840,62$$

- average survey error:

$$\sigma_{\bar{y}_{doc}} = \sqrt{\frac{s^2}{n}} \times \sqrt{1 - \frac{n}{N}}, \quad \sigma_{\bar{y}_{doc}} = 3,449$$

- permitted error limit:

$$\Delta_{\bar{y}_{doc}} = Z_{\alpha} \cdot \sigma_{\bar{y}_{doc}}, \quad \Delta_{\bar{y}_{doc}} = 6,76$$

- confidence interval:

$$P(168,12 < m_{y_{doc}} < 181,64) = 95\%$$

The average error in documents will be in the interval (168, 12; 181, 64) lei, with a probability of 95%.

$$R = \frac{\Delta \bar{y}_{doc}}{y_{doc}} \times 100 = 3,86\%$$

(higher than the parameter initially established at 1%, but lower than 5%, so the survey is representative).

We determine the sample volume in the case of the control of accounting records by using the following formula:

$$n = \frac{Z^2 \cdot s_{y_{ic}}^2}{\Delta \bar{y}_{ic} + \frac{Z^2 \cdot s_{y_{ic}}^2}{N}}, \quad n = 2.512$$

We observe the sample of 2.512 accounting records and we obtain:

- for variable  $x_{ic} : \begin{pmatrix} 1 & 0 \\ 2.432 & 80 \end{pmatrix}$

$$w_{ic} = 0,96815 \sigma_{w_{ic}}^2 = 0,03084$$

- average survey error:  $\hat{\sigma}_{w_{ic}} = 0,002872$

- permitted error limit:  $\Delta_{w_{ic}} = 0,00563$

- confidence interval:

$$P(0,9252 < p < 0,97378) = 95\%$$

so the proportion of the accounting records correctly drawn is in the interval (96,25%-97,38%), and that of those incorrectly drawn in the interval (2,62%-3,75%). Multiplying by 14.000 we obtain the number of accounting records correctly drawn in the interval (13.475, 13.633) and the interval for the number of the accounting records incorrectly drawn (367, 525), with a probability of 95%:  
 $R = 0,58\% (< 1\%)$

- for variable  $y_{ic} = \begin{pmatrix} [0-8] & [8-16] \\ 2.482 & 30 \end{pmatrix}$  hundred lei

$$\bar{y}_{ic} = 409,5 \quad s_{y_{ic}}^2 = 7.552$$

- average survey error:  $\sigma_{y_{ic}} = 1,423$

- permitted error limit:  $\Delta_{y_{ic}} = 2,789$

- confidence interval:

$$P(406,711 < m_{y_{ic}} < 412,289) = 95\%$$

The average error in accounting records will be in the interval (406,711, 412,289) lei.

$$R = \frac{\Delta \bar{y}_{ic}}{y_{ic}} \times 100 = 0,68\% (< 1\%)$$

## 4. Conclusions

The use of simple random survey in audit involves the following clarifications:

- the unrepeated simple random survey is always more precise than the repeated simple random survey and requires a lower sample volume;
- the simple random survey is recommended in the audit of the number of accounting documents and records incorrectly drawn (the case of alternative variables) and less recommended in the control of the size of error in the accounting documents or records (the case of quantitative variables);
- it will be applied in the audit of the size of error (from accounting documents and records) only when the error distribution will be relatively close;
- it won't be applied if the errors from the controlled accounting documents and records present isolated values, because it will determine large representativeness errors;
- the simple random survey is recommended especially for small entities, and for large entities it will be used in order to control only certain aspects taken separately (the audit of some documents with a close value).

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## Expected Credit Losses - IFRS 9 and Basel III moving towards convergence?

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### Abstract

*Analysing the loan loss provisioning systems, the incurred loss model of impairment has been identified to be a pro-cyclical one, with potential effects both on amplifying the credit business cycles, and also on earning management.*

*The model based on expected losses, promoted by the Basel regulations proves to be more suitable in recognizing the losses during time and smoothing both the credit cycle, and the earnings management.*

*As a response to these evidences, IASB has issued IFRS 9 with the main scope of shifting the accounting provision concept from incurred loss to expected loss.*

*The aim of the paper is to disclose the main interferences and alignment of the expected loss concept between the Basel regulation and IFRS 9, as a big step towards a convergence of the two.*

**Key words:** impairment, expected loss, incurred loss, convergence.

**J.E.L. Classification:** M41, M48, G28.

### 1. Introduction

Making a review of the latest financial crisis, certain weaknesses were identified in relation with accounting.

The fair value accounting is considered to have played a role in the financial crisis, but the loan loss provisioning system, as well.

According to Boyer, 2007: "If fair value accounting is applied to banks, an extra volatility may be created unless a new wave of innovations introduces countervailing forces" [1], while the author Persaud, (2008) considers that in a downturn fair-value accounting forces the banks "to recognise

losses at the same time, impairing their capital and triggering fire-sales of assets, which in turn drives prices and valuations down even more" [2].

On the other hand, this theory was not shared by all. In the view of the authors Laux, Christian, and Christian Leuz, 2009, it is not the Standard as a regulation that is not corresponding enough, but the ways of putting it in practice: "although it is difficult to fault the Fair Value Accounting Standards per se, the implementation issues are a potential concern" [3].

The same concept of lacking clear procedure for implementation is well identified also, by Véron, Nicolas (2008). In his understanding, "Beyond the standards themselves, how they are applied is a key issue, whose importance is often underestimated in Europe. The quality and international consistency of IFRS implementation and enforcement is vital to financial stability, as the Banking supervision committee of the Euro system had stressed before the crisis began" [4].

As a conclusion Pinnuck (2012) stated that "there is no empirical evidence that fair-value accounting (FVA) added to the severity of the crisis". [5]

Still, the loan portfolio of the banks, representing the greatest part of the banks' assets in the financial statements are accounted at cost, not at fair value, and the loan loss provisions system represents the key element in this respect. Loan loss provisioning is a key element of financial reporting of the banks, used also in the earnings management policy. According to authors Anandarajan, Hasan, McCarthy (2007), when it comes to loan loss provisions "earnings management could only be achieved at the expense of risk management and vice versa." [6]



## 2. Literature Review

The major unsatisfactory feature of the impairment model based on the incurred loss approach, identified by the literature and practice, is the delayed recognition of the loan loss provisions in the financial statements. The recognition of the credit losses on the loan portfolio under the International Accounting Standard (IAS) 39 was made with delay, only when objective evidence of impairment can be observed, when the impairment triggers have already been present. Gebhardt, Novotny-Farkas, (2011) in the article "Mandatory IFRS Adoption and Accounting Quality of European Banks" stated that "the application of the incurred loss approach results in less timely loan loss recognition implying delayed recognition of future expected losses. In the light of the ongoing financial crisis it is questionable whether this is a desirable financial reporting outcome of mandatory IFRS adoption" [7]. The authors have also provided evidences that "the restriction to recognise only incurred losses under IAS 39 significantly reduces income smoothing." [7]

The IAS 39 provisioning model based on incurred losses, is recognized in the academic literature to, is defined by a backward looking perspective and this approach contributes to exacerbating pro-cyclicality. The exacerbation of the loan lending cyclic is influenced by the fact that, based on this model, the loan coverage with specific provision is increasing only when loans start deteriorating and become nonperforming.

The pro-cyclicality effect of loan loss provisioning system of the banks is already well documented in the literature with empirical evidences from cross-country data. (Cavallo, Majnoni, 2001; Bikker, Hu, 2002; Leaven, Majnoni, 2003; Bikker, Metzmakers, 2005; Bouvatier, Lepetit, 2008; Pérez, Salas-Fumás, Saurina, 2008; Gebhardt, Novotny-Farkas, 2011). Also, the authors have tested the income smoothing, as an earning management instrument to reduce the volatility.

It is also to be mentioned, that, in contrast, the literature provides also some opinion that do not support the pro-cyclical character of the accounting provisioning system. Handorf and Zhu (2006) showed that "empirical tests do not support the claim that bank loan loss

provisioning is pro-cyclical", due to the positive correlation identified by them between the provision amount and the gross domestic product. Based on panel data on US commercial banks,, they concluded that the banks are rational when building up reserves and "loan-loss provisions reflect current and projected bank losses" [8].

Nevertheless, the opinion that I share and that this paper is considering, is in favour to the pro-cyclical feature of the loan loss provisioning system used as accounting base. According to Risaliti, Cestari, Pierotti, 2013, the conclusion can be summed up in the words "too little, too late" [9]. The authors consider that the incurred loss model presents the "risk that the loan losses, particularly for those not deteriorated, are consistently inadequate in amount, recorded late, and unevenly distributed during the life of the loan". [9]

Considering these, banks have to recognize the expected losses also from accounting perspective, in order to adequately take it into consideration in the accounting books, such as profit and loss account and financial statements.

As a response to these evidences, the International Accounting Standards Board (IASB) has started, in 2009, the work, on the currently issued, IFRS 9, with the objective to replace the incurred loss model with the expected loss model.

## 3. The Interference with the Bank Regulation

According to, currently in force, IAS 39, the assessment of financial instruments is done based on objective evidences of impairment, with reference to the entire loan portfolio (IAS 39.58, IAS 39.AG85). The impairment is the result of at least one loss event that changes the estimated future cash flows of the loan, and it can be reliably estimated. Therefore the "assessment of the loans is based on the experiences of past losses or current events but not yet considered by the company in the estimate of the degree of credit risk" [9].

According to IAS 39 rules, the expected losses residing from future events expected to occur after the assessment date may not be recognized. "Amounts that an entity might want to set aside for additional possible

impairment in financial assets, such as reserves that cannot be supported by objective evidence about impairment, are not recognized as impairment or bad debts losses under IAS 39." [10]

This approach of measuring the loan loss provisions is different, in a substantial manner, compared to the rules and methodologies described and required by the Basel regulatory framework.

The Basel III, as well as previously Basel II, requires expected losses to be quantified under the internal rating based approach. According to the text of the Basel Regulation, expected loss or EL means the ratio of the amount expected to be lost on an exposure from a potential default of a counterparty or dilution over a one year period to the amount outstanding at default.[11]

The Basel framework also states that the regulatory capital is meant to cover the unexpected losses, while the expected losses should be covered by the loan loss provisions. In case there is a misalignment in the amounts of the accounting provisions and the expected losses, the Basel regulation requires a correction in the regulatory capital. In other words, if the accounting provisions are less than the expected losses, the gap has to be covered from the regulatory capital.

The banks calculate the expected losses, under the Basel internal rating based approach, for 1 year period of time, as the product of exposure at default (EAD), which represents the amount outstanding in case the borrower defaults, probability of default (PD), the loss given default (LGD) and, a maturity adjustment (M) whenever needed.

Since banks are required to fully cover the expected losses with loan loss provisions, in case of a shortfall, meaning insufficient accounting provisions, this has to be deducted entirely from the Common Equity Tier 1.

In this way, the supervision framework clearly states that the provisioning system should be a forward looking one, and not a backward looking one based purely on incurred losses and past events.

As a conclusion Gebhardt, Novotny-Farkas, (2011) stated that "the restriction to incurred losses may result in less decision-useful information and less transparency about credit risk in banks' financial

statements." [7] As such, the IAS 39 approach is "in conflict" with regulatory objective of financial stability.

At its turn, the interference between Basel II and IFRS was analyzed by several authors. Starting with Borio, Furfine and Lowe (2001) in the "Procyclicality of the financial system and financial stability: issues and policy options", Benston and Wall (2005) in "How Should Banks Account for Loan Losses?", Grünberger (2007) in "Accounting for credit risk: are the rules setting the right incentives?", and Leitner (2005) in "Basel II-Parameter im IAS-Wertberichtigungsprozess (translation in English Basel II-parameters in IAS-impairment process)."

#### **4. The Expected Credit Losses Model in IFRS 9**

Even though IAS 39 did not require waiting for actual default before impairment is recognised, in practice this was often the case, and this approach gave room for postponing the recognition of losses.

The main objective of the new impairment requirements stated by the IFRS 9, it is to provide users with information about the expected losses on financial instruments. The model developed is a forward looking one and requires the banks to recognise expected credit losses at all time, without the occurrence of a trigger.

Different than IAS 39, IFRS 9 requires an entity to base its measurement of expected credit losses on historical, current and forecast information [12]. The main observable difference between the two approaches is given by the "forecast" data to be used.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early implementation and the credit changes can be early applied in isolation, without otherwise changing the accounting for financial instruments.

As an overview of the IFRS 9 impairment requirements, three stages can be identified [12]:

- Stage 1: in this stage the 12-month expected credit losses are recognised in profit or loss once a financial instrument is originated or purchased. This serves as a proxy for the initial expectations of credit losses. Also,

interest revenue is calculated on the gross carrying amount(i.e. without the adjustment for expected credit losses).

- Stage 2: recognition of the life time expected credit losses. If the credit risk increases significantly, and it cannot be considered any more as low risk, full lifetime expected credit losses are to be recognised. The calculation of interest revenue on financial assets remains the same as for Stage 1.

- Stage 3: Lifetime expected credit losses are still recognised. If the credit risk of a financial asset becomes impaired, the interest revenue is calculated based on the amortised cost (i.e. the gross carrying amount adjusted for the loss allowance).

The expected credit losses related to 12 month period are a portion of lifetime expected credit losses, portion that represents the expected credit losses that result from default events that can occur within the next 12 months after the assessment date. The 12 month expected loss is the entire credit loss related to a loan weighted by the probability that this loss will occur in the next 12 months. Therefore, this is not equal with the expected cash shortfalls over the next 12 months.

According to the requirements of the Standard, the 12 month expected loss is not the sum of the credit losses on loans that are forecast to go into default in the next 12 months. If such loans can be identified, it means that here is a significantly increase in the credit risk related to those loans, up to impaired. If this is the case, the lifetime expected credit losses are to be recognised, and not the 12 month expected losses.

Lifetime expected credit losses are defined as the expected present value measure of losses that arise if the borrower enters into default. Due to the discount applied in order to obtain the present value of the payments, a credit loss (i.e. cash shortfall) can be recognise even if the assumption is that the full amount will be repaid, but, but later than according to the agreement/contract.

In what concerns the interest revenues, these should be obtained based on EIR (effective interest rate) applied to the gross carrying amount of loans, for the loan classified in the stages 1 and 2. For the loans identified as impaired, classified in stage no.

3, the requirement of the standard is to disclose the interest revenue obtained by applying the EIR on the amortized cost amount of the loan. The amortized cost is calculated as the difference between the gross carrying amount and the loss allowance calculated.

Already there are voices that are debating the correct evaluation of the credit portfolio according to the new Standard. Some authors [10] argue that by applying the 12-month expected credit losses approach at the moment of initial recognition of the loan, the final result would be an overestimation of the expected credit losses, and therefore an underestimation of the net book value of financial asset, below of the fair value.

Nevertheless, we should keep in mind that the purpose of the expected loss model is provide a prudent approach in terms of coverage of the potential losses to be generated by the loan portfolio. From this point of view, the model, provides the necessary coverage, and it contributes to the smoothing of the effects of the provision during the life time of the loan, in a similar way as the expected loss concept of Basel regulation.

## 5. Conclusion

IFRS 9 shifted the perspective from the incurred loss model of IAS 39 to the model of expected losses overcoming the pro-cyclical effect of the previous standard, and offering a greater convergence with the prudential supervisory regulations.

The standard opens the way to the use of forecast information and uses a dual measurement approach in order to overcome the weak parts of IAS 39 that provided for the recognitions of the losses only based on past events. IFRS 9 makes a distinction between loans and other financial assets that have not deteriorated significantly in credit quality since initial recognition or have low credit risk, on one hand and for which 12-month expected credit losses are recognized, and loans and, on the other hand, other financial assets that have deteriorated significantly since initial recognition and are impaired, for which lifetime expected credit losses are recognized.

By recognizing a portion of the life time expected credit losses and then the full life

time expected credit losses, the approach provides a sound forward looking perspective with a strong counter-cyclical effect.

Also, the model imposed by the new standard is closed in the approach to the Basel prudential regulations. The prudential regulation on capital adequacy, requiring banks to calculate 12 month credit expected losses as part of the regulatory capital, uses the credit loss experience based on historical events to determine the expected losses over the entire life of the loan and considers a range of possible economic scenarios. From this point of view, the Basel expected losses might not reflect precisely the characteristics of the portfolio at the assessment moment.

By contrast, the expected credit losses model described in the IFRS 9, promotes the evaluation based on the information available at the assessment date, also to be used in the forecast process. From this perspective the standard intends to provide a fair picture of the economic reality at the reporting date, rather than adjusting assumptions derived from historical events with the purpose of achieving a counter-cyclical effect. Although, from the practical point of view, the application of the standard can be rather expensive in terms of efforts in order to evaluate the life time expected credit losses, in my opinion, the standard takes one step forward towards a convergence with the expected loss concept introduced by the Basel regulations.

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## Implications of Bank Failures – Case Study: Daiwa Bank

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### Abstract

*The article presents a study which aims to analyze the reasons why banks have failed in the past and now the implications will be considered. Since banks are more closely intertwined financially through lending and borrowing from each other, the failure of one bank is believed to spill the effect over on another bank. Therefore the banking system is more susceptible to systemic risk. The contagious effect in banking occurs faster, spreads widely within the industry, results in a large number of bank failures, results in larger losses and can even spread to other countries, which might have a macroeconomic impact.*

*In order to understand why banks have incurred heavy losses and loss of business, the example of Daiwa Bank, which had to close its US operation in 1995, and at present is under the threat of closure of being nationalized, may be taken.*

**Key words:** bank failures, operational risk, risk monitoring

**J.E.L. classification:** G21, G24

### 1. Introduction

Banks, as compared with other firms, are considered to be more fragile and also the banking industry as a whole is considered to be more susceptible to contagion than other industries. This greater fragility is believed to lead to greater failures for the reasons: 1. Low capital asset ratios, which means that they are highly leveraged. 2. Low-cash-to-asset ratios, which may require sale of earnings assets to meet deposit obligations. 3. High demand debt and short term debt-to-total debt (deposits) ratios, which may require sale of assets and even sale of non-liquid assets in order to pay off depositors [8].

In some cases bank failures have put a heavy burden on the taxpayers. This is the

reason why regulators are often believed to be the reason for bank failures as they have increased the probability of bank failures and also their cost. Regulators are partly blamed because they try to socialize the cost of the failure by shifting the costs from private depositors to taxpayers. A matter for debate is why these costs must be socialized, whereas when the bank makes profits these go to only a few private pockets. [3]

Daiwa Bank is one of the weak banks in Japan at present. Its financial health has made its share price fall down making it a prime target for nationalization. Problems in this bank began in 1995 when its New York operations were closed. The US and Japanese authorities knew as early as 1993 that the bank had been involved in some sort of dubious dealings. In order to examine what went wrong in the bank had been involved in some sort of dubious dealings. In order to examine what went wrong in the bank to make it leave the US market the reasons are below. [11]

### 2. Causes of bank failures

The reasons why the bank had to leave the US banking market were as follows: first of all, the bank deliberately manipulated its books for two years and later disclosed to the authorities that it had been involved in violation of record keeping. The bank deceived the authorities because one of the bank's bond traders incurred losses of \$1.1 billion in unauthorized dealings. The trader, named Toshihide Iguchi, was blamed for concealing 30,000 unauthorized dealings from regulators for 11 years. Because of its strong position in the domestic market the bank absorbed the losses and no one noticed them. [7]

As mentioned above, the bank later revealed that it had temporarily removed the records of bond dealings and shifted some of its personnel.

Daiwa Bank heavily depend on one man for profits and therefore it did not pay much attention to whether the books were main-

tained properly or not as long as the top management was blessed with higher profits, since half of the profits at that time were coming from that particular branch.

The important point that should be noticed here is that the bank's management did not identify the breaches in law; it was the trader himself who disclosed to the bank's management the bank tried to hide that information from the regulators. When it finally decided to inform the regulators about its bond trader it did not expect the consequences, because the management thought that the bank would escape by handing over or identifying the person involved in the crime. On Mr. Iguchi's part, he thought that being sincere to the bank would mean that he might not be punished for what he had done, and according to him it was the bank that would decide whether to punish him or not and not the federal authorities. Secondly, he believed that whatever he did was for the bank and not for his personal accounts. Therefore he believed that the bank was harsh on him when it handed him over to the federal authorities for civil action. [6]

### 3. Failure of operational risk

Daiwa Bank, being one of the biggest banks at the time, could be blamed for not having a proper management system in place that would uncover its exposure to potentially heavy losses.

Lack of a proper risk management system created problems for the Daiwa Bank and it had to leave one of the world's biggest banking markets. Greenspan, the chairman of the Federal Reserve Board (FED) on his visit to Japan in 1996, suggested integrating the bank's computerized internal risk management system with that of the FED and other regulators.

This would make the regulators assess a bank's position more quickly and they would not have to wait until the losses had been incurred. It can be said that this approach is more proactive than reactive for banking supervision, since it will improve the in-house and at the same time supervisory oversight. But in the end it is bank management's responsibility to perform leadership and oversight roles, because regulators cannot inspect each and every transaction or activity of the bank. [12]

The removal Daiwa Bank from the US banking market was a result of a failure of control of operational risk, which is the risk that arises from the improper operation of trade processing or management systems that will result in financial losses.

Operational risk also encompasses the risk of loss resulting from the breakdown in controls within the firm including but not limited to, unidentified limit excesses, unauthorized trading, fraud in trading or in back office functions including inadequate books and records and a lack of basic internal accounting controls, inexperienced personnel, and unstable and easily accessed computer systems.

When the Daiwa Bank's closure in the US market is examined it can clearly be seen that was a violation in keeping and maintaining the proper books. Secondly, it was realized that the responsibilities should be dispersed and one person should not be given all the responsibilities for trading and maintaining the books, as this gives the trader the change to manipulate the records, and that it what happened when Mr. Iguchi was unsuccessful in making profits: he manipulated and tried to turn unauthorized dealings into authorized dealings.[9]

This is the same mistake that Barings Bank made and therefore faced heavy losses which eventually resulted in its collapse. Both banks would have escaped from incurring heavy losses if they had separated the trading and support functions. It can be said that both banks failed to follow the fundamental risk management practice that separates the two functions of support and trade. [4]

Operational risk in an organization can be controlled through properly managed procedures and records and basic internal accounting controls. Secondly, it is important to have an internal audit function but it is more important that it is independent from the trading and revenue side of the business.

Also the rules and policies should be clearly stated to all of the employees and the organization or the bank should make sure that the "Chinese walls" are built. It is, therefore, important to have different departments of a bank in different areas. Also, the files and computers system should be separated from one department to another. In this way the disclosure of information can

be minimized and any violations made can be noticed. [5]

#### **4. Awareness for the operational risk**

Awareness for the operational risk among the higher management, the board of directors, management committees, and audit committees has increased over the period of time.

However, still what has been seen in many banks is that there is not any particular manager or chief information officer or financial controller for managing the organization wide operation risk, although some of the banks have realized the importance of this and have an internal monitor or „watch dog” such as a risk manager. It is therefore important for all banks to measure and report the operational risk on a regular basis. In measuring the operational risk, many banks have experienced some problems. Some of these problems are related to the availability of data and reasons for bank losses. [10]

#### **5. Risk monitoring**

Many banks have begun to monitor risks through monitoring systems. Also, many banks monitor their operational performance through their volume, turnover, settlement fail, delays and errors. Some of the banks have now begun to monitor their operational risk through an on-line monitoring system. It is important for the banks to invest in the management information system in order to keep in line with the new exposures arising from banks' new products and services. [2]

#### **6. Control of operational risk**

Many banks use an internal audit process and internal controls in order to control operational risk. Some banks consider insurance as an important means of mitigation for some form of operational risk. Also, some banks have begun to make provisions against operational risk, similar to what they make against loan loss.

Above all, internal controls are considered to be the major tools against operational risk; as mentioned above segregation of duties, clear management-reporting lines and clearly

defined operating procedures can reduce the risk of operational failure.

In addition to having sound internal controls, internal auditors are also important in identifying the flaws in the system. They can identify the potential problems that can emerge; hence it is the bank's responsibility to be proactive rather than reactive. These are some of the methods that show how operational risk can be controlled. Consequences it is important for a bank to assign particular tasks and to form a separate department and make it an ongoing process to assess and control operational risk alongside other risks. [1]

#### **7. Conclusion**

From the above-mentioned example of Daiwa Bank, it can be seen that it is not only incurred financial losses but also loss of reputation, which has made it hard for the bank to restore its confidence. Therefore, there are many lessons that can be learnt from such mistakes, some of these are mentioned below.

When there is an immense pressure of competition in the market banks try to cut corners, so it is important for banks to have effective internal controls and reliable books and records.

With the invention of new technologies and new products and services this is a world of changing risks, so with such changing risks changing supervisory strategies are needed. If supervision does not go hand then some sort of disaster in the future can be predicted.

Similarly, regulators need to supplement regular exams with more frequent field visit when institutions enter higher-risk activities. This will make banks keep their records in good shape and prevent them from moving records from one office to another.

Potential accounting distortions should also be recognized and minimized. Because regulators in order to prevent bank failures rely on accounting and economic information it is important to make a strategy to deal with such types of distortions.

Also from the bank's point of view side, it is important not to give one person all the responsibilities because it will be easier for that person to manipulate the records in order to save him/herself.

Banks should not rely on one sector for investment as this may create a bubble and when the bubble bursts it makes it hard for banks to recover money, and loans turn into bad debts and eventually the banks find it hard to meet up to the demands of its depositors.

Capital ratios also play an important role in bank failures, so the regulators and the bank management should try to keep these ratios according to the set guidelines.

Banks should also make loan loss provisions and risk provisions; this will help banks not to suffer from a sudden big loss at one time and prevent them from failure or collapse.

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## Bank-specific and Macroeconomic Determinants of the Quality of Bank Loans Portfolio in Romania and Bulgaria

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### Abstract

*The aim of our paper is to empirically investigate the determinants of the quality of bank loans portfolio for a panel of 29 commercial banks from two new EU Member States, namely Bulgaria and Romania, over the period 2003-2012. Our study is based on annual data coming from Bankscope Database, commercial banks’ annual reports, Eurostat and World Bank’s Global Financial Development Databases.*

*The results of our study show that the dynamics of bank loans quality, expressed by the ratio of non-performing loans to total loans, is significantly influenced by both macroeconomic factors (the GDP growth rate, the unemployment rate and the inflation rate) and some bank-specific factors (the return on average total assets and the size of the bank).*

*The added value of our study comes from providing evidence regarding the main factors that could influence the quality of bank loans portfolio in Bulgaria and Romania.*

**Key words:** non-performing loans, commercial banks, bank-specific variables, macroeconomic variables

**J.E.L. classification:** C23, G01, G21

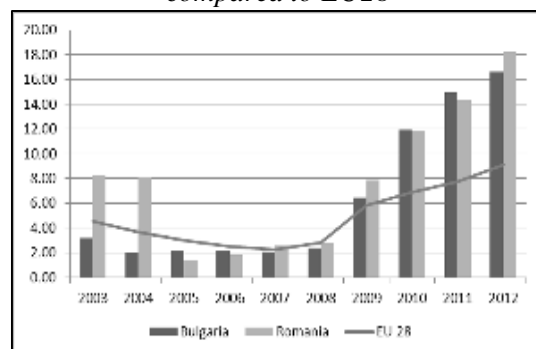
### 1. Introduction

In the years before the crisis, a dominant characteristic of the banking sectors of Bulgaria and Romania was the extremely accelerated dynamics of bank loans, which, on the one side, was appreciated as a progress regarding the convergence to the European standards, but, on the other side, led to the

accumulation of some important macro-economic and financial vulnerabilities.

Against the background of the recent financial and economic crisis, there were reported in both countries an important decrease of the growth rate of bank loans (sometimes even registering negative values) and an alarming deterioration of the quality of bank loans portfolio (expressed by the non-performing loans rate), which became a major problem in the banking sector. The data in figure 1 reflect a significant increase of the non-performing loans rate starting with 2009, in both Romania and Bulgaria, with major negative consequences on both the soundness of the banking sector and the economic growth and employment rates.

*Figure 1. The dynamics of non-performing loans rate in Romania and Bulgaria compared to EU28*



Source: authors’ calculations, data from IMF country reports and World Bank’s Global Financial Development Database

In this context, research efforts on identifying and analyzing the key factors that influence the evolution of non-performing loans rate intensified.

Our study aims to identify the key determinants of the quality of bank loans

portfolio for a panel of 29 commercial banks, which operate in two new EU Member States (namely Bulgaria and Romania), during 2003-2012.

The remainder of this study is structured as follows: section 2 is a literature review; section 3 describes the data and presents the methodology; section 4 presents and discusses the empirical results. The paper ends with conclusions.

## 2. Literature review

The overview of previous studies points to a high interest of researchers for the analysis of the determinants of non-performing loans' dynamics, either for one single country [1], [2], [3], [4], [5], [6] or for a panel of countries [7], [8], [9], [10], [11], [12], [13], [14], [15], [16], [17], [18], [19], [20], [21], [22].

From the perspective of the European countries and, especially, of the two countries included into our analysis (Bulgaria and Romania), the study performed by Festic' et al. [9] raises interest, empirically investigating the impact of some macroeconomic and bank-specific variables on the evolution of non-performing loans rate in five of the New EU Member States. The results of the study show that especially the macroeconomic environment from the analyzed countries has got a significant impact upon the evolution of non-performing loans.

The empirical analysis of the determinants of non-performing loans performed by Kastrati [10] on fifteen countries in transition shows that the growth rate of GDP, the inflation rate and competition have an important impact upon the dynamics of non-performing loans.

Analyzing the effects of some macroeconomic and financial indicators upon the dynamics of non-performing loans in nine countries of Central, Eastern and Southeastern Europe, Jakubík and Reininger [15] highlights that economic growth, credit growth and exchange rate volatility have a significant impact upon the quality of bank loans.

Klein [17] empirically assesses, for a panel of 16 countries from Central, Eastern and Southeastern Europe (CESEE), the determinants of non-performing loans and the feedback effects between the banking sector and the real economy. The results of his study show that both macroeconomic factors and

bank-specific ones influence the quality of bank loans, but the impact of the bank-specific factors is weaker. Also, the manifestation of some tight connections between the banking sector and the macroeconomic environment is confirmed.

Messai and Jouini [18] analyze the main macroeconomic and bank-specific determinants of non-performing loans for a panel of banks from Greece, Italy and Spain, for the period 2004-2008. The authors find that the rate of non-performing loans is significantly influenced by the growth rate of GDP, the unemployment rate, the real interest rate, the return on assets and the loan loss reserves.

Makri, Tsagkanos and Bellas [19] identify the main macro and microeconomic factors that influence the rate of non-performing loans in the banking sectors from 14 countries of the Euro zone. The results of their study show that the quality of bank loans is significantly influenced by both some bank-specific factors (the rate of non-performing loans of the previous year, the capital adequacy ratio and the return on equity), and some macroeconomic factors (respectively public debt, GDP growth and unemployment rates).

Based on the above mentioned studies, it is worth noting that the evolution of the bank loans quality may be influenced by both macroeconomic factors (like GDP growth, unemployment, inflation, exchange rate, interest rate, credit growth) and bank-specific factors (as capital adequacy, profitability, bank size and ownership).

Our study contributes to the development of existing literature by providing empirical evidence on the main macroeconomic and bank-specific variables that influence the bank loans quality in two EU countries, namely Bulgaria and Romania, during 2003-2012.

## 3. Data and methodology

Our empirical study is conducted for a panel of 29 commercial banks from two new EU Member States (15 banks from Romania and 14 from Bulgaria) and for a period of 10 years (2003-2012). The analysis uses annual data coming from Bankscope Database and the annual reports of the commercial banks (for the non-performing loans rate and the bank-specific determinants) and Eurostat and

World Bank's Global Financial Development Databases (for the macroeconomic determinants).

The reasons behind the selection of countries to be included into our analysis are that they have similar economies, the banking sectors present some common characteristics and in both countries a significant deterioration of bank loans quality was recorded, starting with 2009.

The model is a fixed-effects linear regression model, linking the ratio of non-performing loans to total loans to key bank-specific and macroeconomic determinants of the quality of bank loans portfolio, as depicted by equation (1).

$$NPL_{i,t} = \alpha + \beta NPL_{i,t-1} + \gamma_k X_{k,i,t} + \delta_j Y_{j,i,t} + \vartheta_i + e_{i,t} \quad (1)$$

where: *i* refers to the commercial bank; *t* refers to the year; NPL is the ratio of non-performing loans to total loans;  $\alpha$  is the constant term;  $X_k$  represents a vector of bank-specific factors with impact on the quality of bank loans portfolio;  $Y_j$  represents a vector of macroeconomic determinants of non-performing loans;  $\beta$ ,  $\gamma_k$  and  $\delta_j$  are the coefficients of the independent variables;  $\vartheta_i$  are the bank specific intercepts;  $e_{i,t}$  are the observation specific errors.

Given the quite large number of commercial banks included into our sample (29), the fixed effects estimation technique was selected, removing the effects of time-invariant characteristics specific to each bank. The results of the Hausman test (p-value = 0.005) confirmed our choice, proving that the fixed effects estimator is to be preferred to random effects.

Huber/White (sandwich) estimators were used to control for heteroskedasticity, as the results of the modified Wald test for groupwise heteroskedasticity in fixed effects regression model rejected the null hypothesis of homoscedasticity.

The dependent variable, expressing the quality of bank loans portfolio, is represented by the ratio of non-performing bank loans (as loans more than 90 days past due) to total loans. As non-performing loans generally are highly persistent over time, a lagged value of the dependent variable was introduced into the right hand-side of the equation. Together with

this explanatory variable, two other groups of independent variables were included into the model, namely four bank-level variables and four country-specific (macroeconomic) variables. A more detailed situation of the variables and their expected impact is reflected in table 1.

Table 1. Description of the variables and their expected effect

Variable	Description	Expected effect*
<b>Dependent variable</b>		
NPL	The ratio of non-performing loans to total bank loans (%)	
<b>Independent variables/ bank-specific</b>		
EA	The equity to asset ratio (%) - to measure the capital adequacy of the bank	-/+
ROAA	The return on average total assets of the bank (%)	-
NIIR	The ratio of non-interest income to total gross revenues (%) – to measure the income diversification of the bank	-
TA	The natural logarithm of the accounting value of the total assets of a bank – to measure the bank's size	-/+
<b>Independent variables/ macroeconomic</b>		
GDP	Annual real GDP growth rate (%)	-
UNEMP	Harmonized unemployment rates (%)	+
INFL	Inflation rate (%)	-/+
DEBT	General government consolidated gross debt (% of GDP)	+

\*according to relevant empirical studies

Source: the authors

The descriptive statistics of the variables included into our analysis is presented in table 2.

Table 2. Descriptive statistics of the dependent and independent variables

Country/ variable	Mean	Std. dev.	Min	Max
<i>Bulgaria</i>				
NPL	7.14	9.12	0.05	58.86
EA	13.06	9.42	5.15	68.93
ROAA	1.45	1.09	-1.18	4.41
NIIR	29.28	11.91	4.28	69.78
TA	7.47	1.18	4.28	9.45
GDP	3.50	3.88	-5.50	6.70
UNEMP	9.81	2.56	5.60	13.70
INFL	5.27	3.01	2.30	12.00
DEBT	22.17	9.76	13.3	43.50
<i>Romania</i>				
NPL	8.50	9.10	0.02	45.45
EA	11.38	4.15	4.22	33.98
ROAA	0.66	2.05	-10.94	3.98
NIIR	36.71	14.44	-4.00	70.81
TA	8.73	1.36	4.67	11.25
GDP	3.46	4.52	-6.60	8.50
UNEMP	6.95	0.65	5.60	8.00
INFL	7.66	3.41	3.40	15.30
DEBT	21.84	8.73	12.30	37.30

Source: authors' calculations

#### 4. Empirical results and discussions

The results of our estimates are presented in table 3. In the first two models only bank-specific determinants (model 1) and macroeconomic determinants (model 2) have been successively included, while model 3 includes both types of variables.

The coefficient of *the ratio of equity to total asset (EA)* is found to be positive (models 1&3), in line with our expectations, but it is not statistically significant, in agreement with the result found by Erdiç and Abazi [20]. Accordingly to the above mentioned empirical studies, the banks with a high level of capital adequacy tend to involve in riskier activities and, thus, a deterioration of bank loans quality may be detected. A possible explanation for the insignificant impact of this variable may be linked to the macro-prudential measures adopted by the central banks of the two analyzed countries in order to ensure financial stability.

*The return on average total assets of the bank (ROAA)* has an extremely significant impact upon the ratio of non-performing loans. The coefficient is negative (models 1&3), in line with our expectations and in agreement with the results obtained by Fofack [7], Boudriga et al. [8], Messai and Jouini

[18], Makri et al. [19], Erdiç and Abazi [20], Chaibi and Ftiti [22]. Given that banks' profitability is reducing, they have a tendency to involve in high risk lending activities, which may lead to the deterioration of bank loans quality.

Table 3. Empirical results

	Model (1)	Model (2)	Model (3)
L.NPL	0.810*** (10.06)	0.873*** (12.03)	0.771*** (8.42)
EA	0.116 (1.26)		0.0423 (0.60)
ROAA	-1.279*** (-3.65)		-0.910*** (-2.97)
NIIR	-0.0368 (-0.71)		-0.0298 (-0.74)
TA	1.742*** (3.73)		1.793** (2.72)
GDP		-0.471*** (-5.47)	-0.320*** (-4.60)
UNEMP		0.392* (1.75)	0.625** (2.46)
INFL		0.0403 (0.48)	0.241** (2.35)
DEBT		0.0341 (0.57)	0.0567 (0.87)
_cons	-10.55** (-2.38)	-0.266 (-0.23)	-17.11** (-2.27)
N	261	261	261
R <sup>2</sup>	0.7765	0.7817	0.8015

Notes: heteroskedasticity-robust standard errors; t statistics between parentheses; \* denotes significance at the 10% level, \*\* at the 5% level, \*\*\* at the 1% level

Source: authors' calculations

Regarding the variable *income diversification of the bank (NIIR)*, our results indicate a negative relationship, but statistically insignificant (models 1&3), in line with our expectations and in agreement with the results found by Chaibi and Ftiti [22]. Given that banks want to diversify their activities in order to increase non-traditional income, they can involve in high risk activities, which may lead to the deterioration of bank loans quality. Our results show an insignificant impact of the NIIR variable, which may be due, in the case of the banks from our panel, to the reduced share of non-traditional income.

Regarding *the bank size variable (TA)*, our results show, in line with our expectations, a positive association with the rate of the non-performing loans, and the coefficient is

statistically significant (models 1&3), in agreement with the result obtained by Chaibi and Ftiti [22] and Louzis et al. [4]. The explanation stems from the fact that big banks tend to involve in riskier lending activities and, thus, may register a deterioration of bank loans quality.

The annual real GDP growth rate (*gdp*) represents a key determinant of bank loans portfolio quality, respectively of the dynamics of non-performing loans rate. Our empirical results show a statistically significant and very important negative coefficient (models 2&3), according to our expectations and in agreement with the results obtained by Louzis et al. [4], Otašević, [5], Castro [14], Jakubík and Reininger [15], Kasselaki and Tagkalakis [16], Klein [17], Messai and Jouini [18], Makri et al. [19], Erdiç and Abazi [20], Škarica [21], Chaibi and Ftiti [22]. When economic activity worsens, the income of the borrowers is reduced, which triggers a higher non-performing loans ratio.

In tight connection with the GDP growth rate, *unemployment rate (unemp)* also has an important impact upon the quality of the bank loans. The increase of the unemployment rate triggers the decrease of the incomes, which could influence the debtors' ability to repay their debts and have a negative impact on the quality of bank loans portfolios. Our results show a statistically significant and positive coefficient (models 2&3), as it was expected, but also in agreement with the results found by Klein [17], Castro [14], Messai and Jouini [18], Makri et al. [19], Škarica [21], Chaibi and Ftiti [22].

Regarding the *inflation rate (INFL)*, a positive (models 2&3) and significant (model 3) impact on the ratio of non-performing loans is found. Such a relationship may be explained by the fact that when the inflation rate increases, the real incomes of borrowers decrease, leading to the deterioration of the bank loans portfolio quality. Our results, reflected in model 1, show that the impact of the inflation rate is not relevant, in agreement with the analysis performed by Castro [14], which shows that the increase of the inflation rate leads to both the decrease of the real incomes and the decrease of the real value of outstanding loans. Thus, the overall impact of the inflation may not be significant.

For the variable *government consolidated gross debt as percentage of GDP (DEBT)*, our

results show a positive impact on the ratio of non-performing loans (models 2&3), in line with our expectations and in agreement with the results obtained by Castro [14] and Makri et al. [19]. When public debt rises, a decrease of the investors' trust and an increase of the interest rate can be registered, which decrease debtors' ability to repay their debts and trigger the deterioration of the quality of bank loans portfolio. However, the coefficient is not statistically significant, as compensatory effects may occur when debt rises as the effect of increasing budget deficits, resulting from either lower taxes or higher public expenditures (both with positive impact on borrowers' ability to repay their debts).

## 5. Conclusions

Our study aimed to investigate the determinants of the loans portfolio quality (expressed by the rate of non-performing loans) for a panel of 29 commercial banks from Bulgaria and Romania, during 2003-2012.

The results of the empirical analysis showed that both macroeconomic and bank-specific factors influence the quality of bank loans. Thus, GDP growth rate and unemployment and inflation rates are the main macroeconomic factors that influence the quality of bank loans, which highlights the major importance that the macroeconomic environment has for the soundness of the banking sector. Regarding the bank-specific factors, our analysis showed a significant impact of the return on average total assets of the bank and of the bank size variables.

Also, our empirical analysis proved that the capital adequacy, income diversification and government consolidated gross debt as percentage of GDP are correlated with the rate of non-performing loans, but these variables are not significant determinants of the bank loans portfolio quality in the banking sectors of Bulgaria and Romania.

As future research direction, we intend to extend our analysis by also taking into consideration other New EU Member States.

## 6. Acknowledgement

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# Is Bancassurance Concept Profitable for the Banking and Insurance Field in Romania?

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## Abstract

*Bancassurance is an integrated service, oriented to the client that follows by the distribution of insurance and banking products to exploit a still less capitalized potential of the Romanian market.*

*The mechanism of this type of product is relatively simple. By bank, namely by its subsidiary stuff, the products of the insurance company are delivered to bank's clients.*

*The more and more important role of bancassurance is also underlined by the fact that over 50% of premium incomes made by life insurer from Western Europe provide from bancassurance sector. In this context, the purpose of this study is to show if there is a winning formula in bancassurance, starting from the construction of the types of products whose success is apparently based on simplicity and a higher degree of sophistication in construction.*

**Key words:** bancassurance, distribution channels, strategic partnership, join-venture

**J.E.L. classification:** G210, G220, G240

## 1. Introduction

In the last period of time, we are taking part more and more to a closeness of the insurance system to the banking system. This is a consequence of the mutations occurred during the financial services request and offer so that the appearance of the bancassurance phenomenon could not be assigned neither to banks nor insurances institutions.

The convergence of bankers and insurers to common platforms is determined, in the case of each country, by the local specific, influence exerted by surveillance authorities and reforms from the central level.

The origins of bancassurance concepts are French. According to financial dictionary of the famous online economic newspaper, "La Tribune" [1], bancassurance is a development model of financial sector based on the closeness between banks and insurance companies for the common use of infrastructure and distribution channels, more specifically, for the constitution of powerful financial polls.

In the German language, it is called Allfinanz and in English, it is called Financial Services.

The Comité Européen des Assurances (CEA) defines bancassurance as [2]: "the provision of insurance services by banks in an integrated approach". Ultimately, this arrangement comes down to the concept of a "one-stop-shop" financial institution for the convenience of clients. Benoist (2002) Bancassurance [3] is a global movement that is gradually breaking down traditional barriers among the various businesses that supply financial products and services.

In practice, in the last years, it was also observed the reverse tendency, manifested by the big insurance companies that are coming closer to banks. The assurance concept refers to big Allianz Insurance Group, owner of Dresdner Bank or AGF that launched Banque AGF in France in 2008. It is considered almost unanimous that bancassurance appeared in Venice in 12th century. "The maritime credits" granted to merchants combined the characteristics of current credit with insurances and operation to term.

In 1863, the idea was resumed and applied in Switzerland when Helvetia insurance society and Credit Suisse and Basler Handelbank banks founded Compagnie Suisse de Reassurance. After the Second World War, the bancassurance concept began to make more and more

progress. In 1965, the Britain bank Barclays created the life insurance division Barclays Life.

## 2. European insurance in the world

With a 35% share of the global market, the European insurance industry is the largest in the world, followed by North America (30%) and Asia (28%) [4].

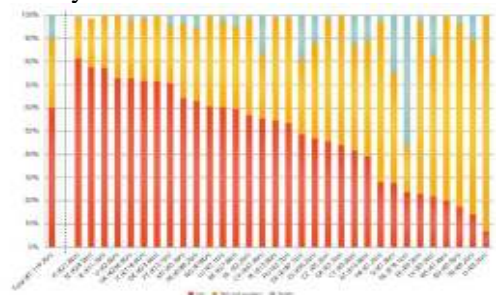
Fig.1 Distribution of insurance premiums in 2013



Source: Swiss Re, Sigma No.3/2014: „World insurance in 2013”

Total European gross written premiums increased by 2.7% in 2013 amounting to over €1 119bn. Life premiums grew by 4.7% to reach €667bn. Property, casualty (P&C) and accident premiums marginally reduced by 0.1% amounting to €334bn, while health insurance premiums grew by 4.9% to €118bn last year.

Fig.2 European insurance premiums by country in 2013

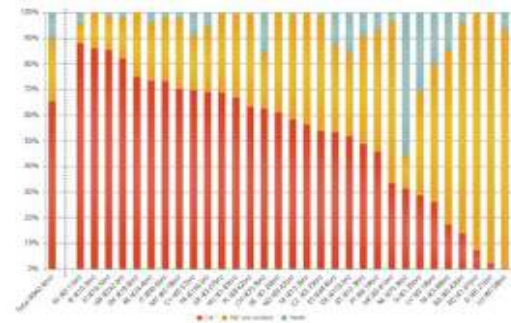


Source: <http://www.insuranceeurope.eu/uploads/Modules/Publications/european-insurance---key-facts-2014.pdf>

Life insurers paid out almost €618bn in benefits to insureds in 2013, providing them with capital and/or annuities. This represents a drop of 2.5% in life benefits compared with the previous year. Over the same period, non-life insurers paid out over €325bn in claims to insureds, a 4.4% increase compared with the year before. Of that amount, some €98bn

was for motor insurance (a slight drop of 0.5% from 2012), €96bn for health insurance which experienced a 12% increase and over €52bn for property insurance claims, which represents a 5% growth compared to the year before.

Fig.3 European benefits and claims paid by country in 2013

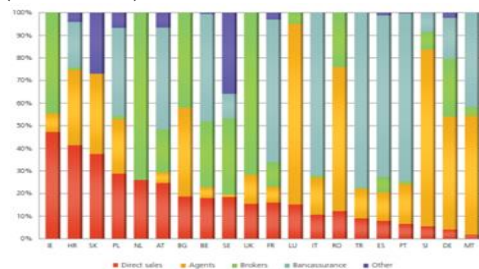


Source: <http://www.insuranceeurope.eu/uploads/Modules/Publications/european-insurance---key-facts-2014.pdf>

At the present time, Europe represents the highest level of penetration of bancassurance segment. The more and more important role of bancassurance is also underlined by the fact that over 70% of premium incomes realized by life policies insurers from Spain have provided from the bancassurance sector.

In Belgium and France, this sector has a weight of 56%, namely 62% of the total premiums registered from insurance internal market (SCOR, 2005) [5]. The bancassurance has not been succeeded as expected in countries as Great Britain, where the life insurance market is dominated by brokers or in Germany, where the role of distribution channels is still predominant (approx. 70% of registered premiums).

Fig.4: Life distribution channels 2012 – (% of GDP)

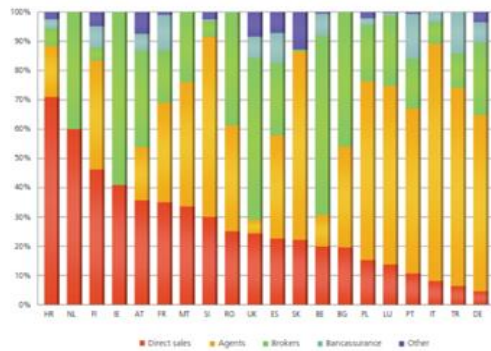


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Fig.5: Non-Life distribution channels 2012 -



(% of GDP)



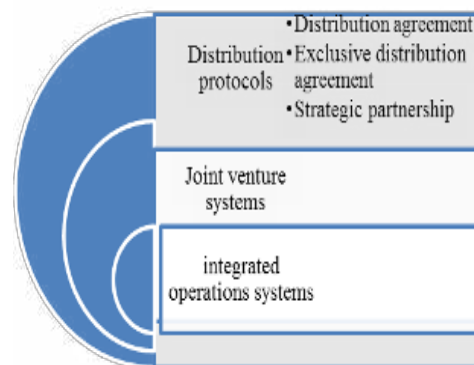
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In Central and Eastern Europe, in countries as Russia, Romania, Hungary or Poland, the approach is a relatively difficult one – as the majority of regional companies are still more focused on commissions and immediate earnings than on long-term relationship with their clients – but with an ascendant tendency.

In North America, the penetration rate of bancassurance is lower than in United States and Canada as a consequence of more restrictive settlements of the domain. In Latin America, the foreign insurers have based on the existent local banking network for partnerships and even for buying the bank. This transfer of property is certainly one of the main reasons that led to bancassurance success in Latin America. Therefore, now this is an area where bancassurance is going to become a permanent distribution system despite the statute of “developing market”, the differences from one country to another and the domination of traditional distribution networks (brokers and agents),.

### 3. Types of possible connections between banking and insurance sectors.

Now the connection [6] between the two sectors could be found under the form of following models: (Fig.6):



Source: personal overwork of the author

#### a) *Distribution protocols:*

a.1) the distribution agreement is a formal or informal arrangement by which a bank recommends clients to an insurer. The agreement is characterized by only one product or a limited relation. There are known two different forms of agreements:

- non-exclusive distribution agreement, where the bank has practically the role of a broker, selling products to its associated insurance company, together with the products of other insurance companies;

- limited distribution agreement, where the insurance company supplies one or many products or types of exclusive products for the associated credit institution; both of them could have other contracts with different partners only for products out of those provided by the bilateral agreement;

a.2) the exclusive distribution agreement represents a formal and exclusive relation in which the bank sells only the insurance products of its partner by its own channels; so the credit institution acts as an assigned representative of the insurer.

a.3) the strategic partnership appears when between the two parts is a common shareholding and an exclusivity report of relations between banks and insurer.

b) *The Joint Venture systems* involve the creation of a new company by an insurer and a bank. Both parts have a well-defined common economic interest while the structure of such a business, the capital participations, the utilized commercialization funds and the business longevity could differ considerably.

c) *The integrated operating systems*, known under the syntagm M&A (fusions and acquisitions), are constituted by transactions

with real estate values of banks and insurance companies, by which it is made the redistribution between the participants of property and control rights over these entities. The above mentioned transactions could have as objective either the taking over of a significant shares package of the approved partner (acquisition) or the reunion of the two associates in the distribution process of a new company (fusion).

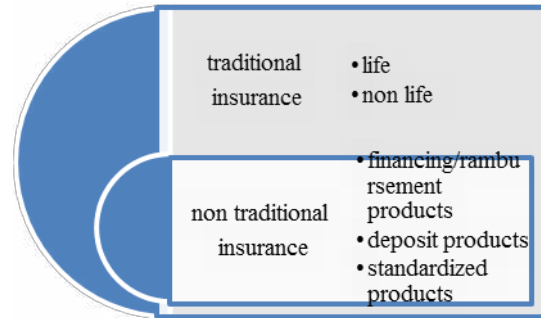
The previous experience has shown that there is no ideal institutional structure including in an optimal, even either relative, the main functional coordinates of successful bancassurance partnership. The selling system success of some insurance policies by banking network depends on many factors, the most important of them being related to legislation and tax system. Countries, as Italy, that allow to banks to invest in insurance societies, have succeeded to stimulate the appearance of bancassurance products. The same thing happened in the states where the fiscal system encouraged the saving. Therefore, France is the most European market for this type of products.

#### 4. Types of bancassurance products

The bancassurance products refer to certain categories of life or non-life insurances. The policies promoted by banks are for: life, accidents, fire and other calamities, transport, civil liability, goods in transit, financial losses, tourist or road, maritime and air transport insurance.

The international practice shows that the life insurance policies are better sold by banks than the non-life type ones. The ones of the first category have the advantage that they are comparable with the banking products [7] and have not a high degree of complexity. The ones of the second category need a longer preliminary instruction of the banking staff, being a more complex category of products.

Out of the traditional insurance products, the societies that practice bancassurance developed a series of products in order to satisfy the clients' needs, as resulting from Fig.7 Bancassurance products.



Source: personal overwork of the author

##### 1. Financing or reimbursement products

The concept of this group of products is relatively simple. A financial institution that grants loans to natural persons is interested if in case of death or permanent invalidity of credit holder, the main and the afferent interests to be reimbursed. This situation is valid: when the financial situation of the petitioner family becomes unstable as consequence of holders' death, or when the good bought by credit has a low liquidity, and, finally, when the value recovered by credit's sale is insufficient for loan's reimbursement. Beyond the financial loss, the bank deals with the risk of its market image deterioration because it would be considered by its clients as a bank that gets the possession of the pledged goods by dispossessing the family of that credit's holder. The loaner also deals with such type of problems. He doesn't want that a loan in progress to be paid by the family in case of its death. He is also worried about the probability that he could not pay the value of credit and its afferent interests in case of a total and permanent invalidity. A category of products that could solve these problems is the financing or reimbursement package, under the form of credit insurance, account discovery insurance, and policies that are ceded by the client in favour of bank for the reimbursement of the main, no matter if the insured event happens or not, the credit holder paying by its own sources only the interest.

##### 2. Deposit products

There are many types of deposit bancassurance products:

- a. Insurance policy with deposit type clause

The benefit as interest afferent to this type of product has the purpose to attract the population to deposit its money in a certain bank. This product could be attached to all

deposits or could be specified a minimum sum of loaner sold. The level of the granted coverage is determined by factors as the price and the results of the insurance request assessment.

Such a product is the term insurance policy with the value of the premium that is changing every year.

In this case, the premiums are paid by the bank.

The value of the insured sum is generally multiple of the loaner's sold value. In case of credit holder's death, this sold of the deposit is credited with the value of the reimbursement granted by the insurer. There are obviously imposed reasonable limits referring to the maximum age and insured sums.

- b. Saving plans

This type of policy could be offered for certain types of deposits that involve successive crediting of deposit account in order to reach an objective – under the form of an amount of money- when the due date of the deposit will be. In case of depositor death or permanent invalidity, the difference between the "objective" sum and the creditor sold account is paid to the depositor or its beneficiary, additional to the value of creditor sold. In the cases where the sums put into account are not fixed, it is preferable that the value of the covering offered by policy to be multiple of the sold account medium value during the previous 6 or 12 months, so the anti-selection problem would be solved.

However, it is possible to increase the value for a depositor anytime and to increase accordingly the value of the insured sum without additional medical assessments. When there are imposed reasonable limits referring to the maximum age or maximum insured sum, this product could offer attractive profit margins for the societies that practice life insurance.

- c. "Pure investment products

These products have no "insurance" elements so they have no risk. Traditionally, these types of products were transacted by banks, but in some countries, they benefit of a favourable fiscal treatment when they are offered by an insurance society.

### 3. Standardized packages of products

These products are usually group products that combine different insurable risks and cost the client less than in case they would be

bought separately. These products are sold over the counter market by banking employees, so their complexity degree has necessary to be reduced.

## 5. Advantages of Bancassurance activity

Fig.7 Advantages of Bancassurance



Source: personal overwork of the author

a) The increase of clients' number by the access to a market created by the database of banking clients. Demographically, the clients of partnership banks could be different of those of insurance society from age, consuming habits, socio-professional categories. Geographically, banks could have a distribution network that covers the areas where the insurance societies have not access to.

b) New business opportunities due to the variety of afferent services and products range. In this sense, the main purpose of the life insurance companies is to increase their turnover both by old clients and based on the services offered to their new clients.

c) Economies of scales. The insurance companies, through the combination of classic activities of life insurances with bancassurance type services, lead to a significant scale economy concerning the administrative costs.

So, the insuring has profitability increases and, in the same time, offers the same products with more reduced insurance premiums, increasing so the products competitiveness of the respective insuring on market

d) Both for the bank and insurer, the implementation of some bancassurance services represents a chance to upgrade the operations. Each partner deals with a

different management style, with other requirements, other strategies, etc. The benefits are real when each company implements the changes appeared as a consequence of learning and adaptation process [8].

e) The insurance companies developed advanced techniques of risk management that could be exploited by big banks.

## 6. Conclusions

The crisis period generated the decline of banking products and, implicitly, a need of incomes and an increased capacity of subsidiaries, and these ones could be seen as some development perspectives of bancassurance activity. In the same time, the clients have become more conscious of the need of protection so that the preoccupation for bancassurance would not be diluted when there will take place a coming back of banking products. At the present time, bancassurance represents an alternative distribution channel of insurance products insufficiently developed in Romania. One of the main problems of bancassurance is the lack of transparency and quantification of transactions by this distribution channel. "There are no numbers, only declarations about how exactly of the premiums are subscribed by the banking channel. We do not know neither how much earned the banks from insurance commissions", said the official person of Eurolife ERB Life Insurance during Bancassurance Forum "from European tendencies to Romanian reality", organized by Profiduciaria.

Lacramioara Glont, Head of Leasing and Banks Department at Generali, has the same opinion "concerning the Romanian bancassurance market, there are not official statistics, but there is a development potential on this distribution channel that, certainly, will be exploited in the next period.

In this context, the main factors [9] of success identified for bancassurance are: the simple products and processes, a serious engagement to the top of the bank that would be transmitted in waterfall up to the subsidiary, and from there to client, the existence of a representative person of the insurer in the board of the bank and of some explicit common objectives between the two partners for volume/profitability.

Moreover, more regulation and transparency could be essential both for the industry and clients. While the costs and complexity are increasing both for clients and sales staff, the bancassurance represents the most cheapest distribution channel, having into account that could absorb a part of costs and replace the other distribution methods

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# The Importance of Managerial Accounting for Enterprise Management

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## Abstract

*The purpose followed in this article is to present and to debate about the importance of managerial accounting for enterprise management. We find it appropriate to study this aspect, because managerial accounting has a major influence in the economic life of enterprises. Managerial accounting is considered to be one of the key elements of the management, as it provides much of the information needed both for effective conducting of current activities, as well for future decision making. So, we can affirm that it has the role of assuring the relations between the developed economic activities and the decisional factors.*

**Keywords:** Managerial accounting, cost, enterprise, management.

**J.E.L. classification:** M40, M41

## 1. Introduction

The place of the management accounting within the economic entity's information system is determined by its ability to provide data referring to the internal processes that take place exclusively under the authority of the company. Economic and financial operations carried out, derive from the implementation of various business strategies, against the background of a strong and diverse competitive environment. Moreover, depending on the activity profile, internal organizational structure can take different forms.

Due to the diversity in what regards the strategies applied, the technologies used, the organizational structure and the external environment, in business practice are encountered many management accounting

systems.

In order to produce high quality information, management accounting should be adapted to the enterprise and to its environment. It has the role of ensuring a fair representation and an appropriate modeling of the use of resources (material, financial, human). The submitted information must be reliable and relevant and reflect all transactions that occur both within the organization as and its commercial relations with third parties.

## 2. The enterprise – a venue for the managerial accounting

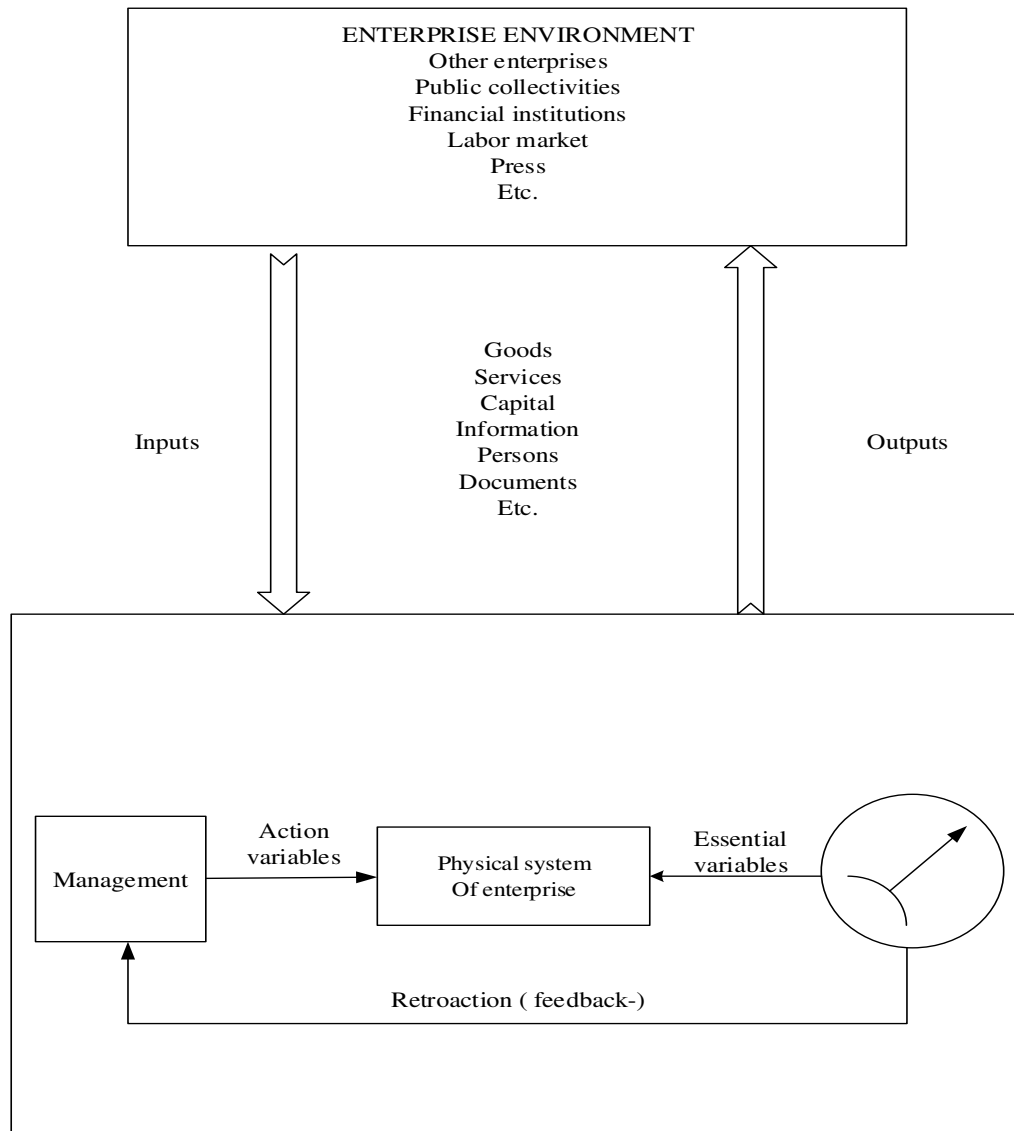
Before presenting the importance and role of management accounting, we consider it appropriate to mention some aspects referring to enterprise - as the place of application and deployment for it.

The company is defined as “a complex system consisting of many elements in interaction (products, facilities, personnel), crossed by various streams (informational, material, financial, etc.) based on which occur transformations which are aimed at providing profitable services and goods for the market”. [1]

At the same time, the economic entity can be seen as a system in which, on one hand the management ensures the achieving and developing of the previously set objectives, and on the other hand the accounting provides the information needed for redacting the dashboard.

In the following figure the enterprise is presented as a physical system situated in relation to the external environment (inputs and outputs), that is controlled and administered by management.

Figure 1. The enterprise - an open system



Source: Adapted after Apothéloz, B., Stettler, A., Dousse, V., "Maîtriser l'information comptable", Vol. 1, Presses polytechniques et universitaires romandes, Lausanne, 2007, pp. 4

The inputs and outputs reflect the relationships, materials or information, maintained with the environment and which characterize the operation of the system. Action variables are represented by the various leading means available to managers, as well as by the policies that they may apply. Essential variables are expressed according to certain criteria (cost, efficiency, effectiveness, etc.) and consist in a predetermined set of information considered to be indicators of the system functioning.

Due to the diversification of the volume of internal information and of the use of them in solving many problems facing enterprises,

management accounting has become one of the basic tools of the management team, regardless the degree of delegation of responsibilities.

### 3. Managerial accounting and enterprise management

Although initially management accounting was focused on the costs calculating, lately it is perceived as a system destined to influence the behavior of the "actors" in the enterprise. At the same time it serves for breaking down the activity of enterprises to a more analytical level as

possible, because it must respond to the informational needs of the management.

This should "provide timely and accurate information, including budgets, standard costs, deviation analyzes, that provide a basis for daily decisions and for capital expenditure analysis". [2] Managers need the information for carry out the exploitation activities, planning, pricing, and to fundament their financial decisions.

Depending on the organizational structure and on the activity profile of economic entity, information necessary to manage the business may vary.

Management accounting has to fulfill the following objectives:

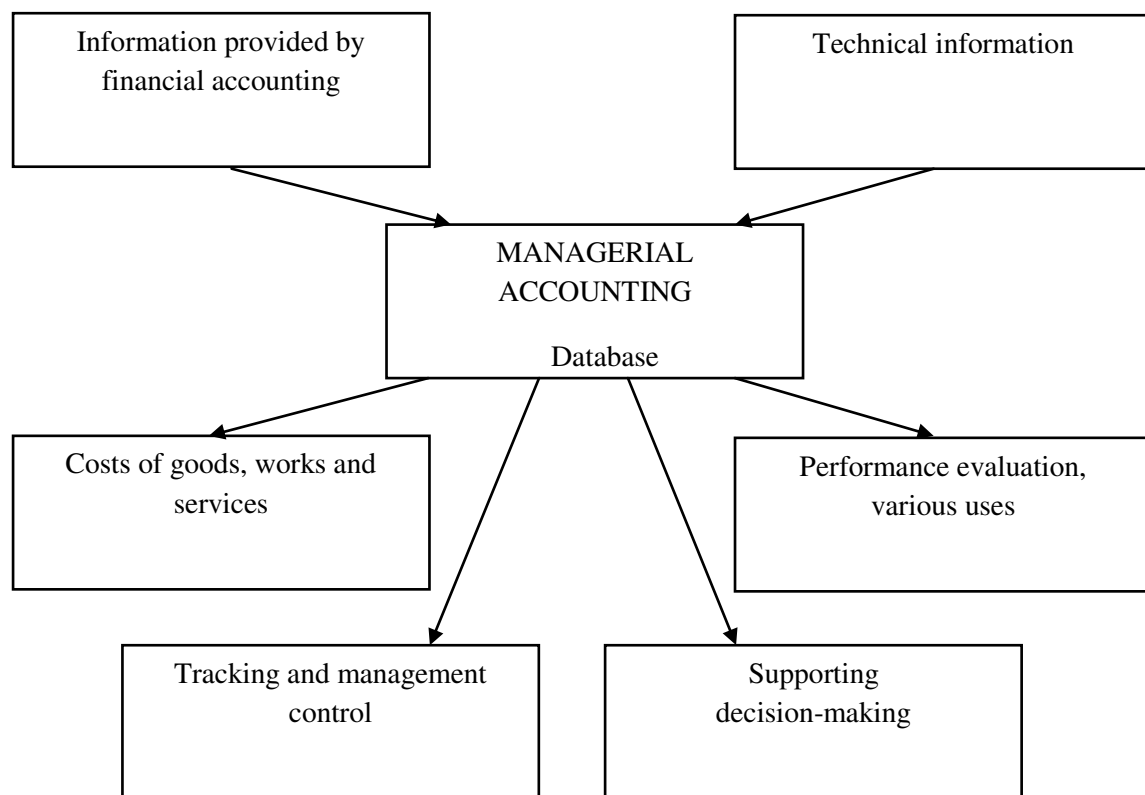
- To help in evaluating the functioning of the various activity centers of the organization (this is possible because the cost calculation is made by functions, by operating or by responsibility centers).
- Formulation of an assessment over the technical productivity of the various factors of production (technical or human

capital, material consumption).

- Establishing for the elements obtained in own production (stocks, capitalized production) of the assessment base and recording them in the financial accounts at "production cost".
- Developing forecasts for the current costs and revenues, by drawing up budgets.
- Formulating some considerations referring to the fixing policy of the selling price.
- Calculating the determined costs necessary to substantiate expense budgets and production.
- Correct assessment of stocks at the end of a given period.
- Comparing the planned activity with achieved results and interpreting the results.

The uses of the database of management accounting are shown schematically in the book "Accounting and Management Control" written by D. Budugan [3], as follows:

Figure 2. The uses of the management accounting database.



Source: Adapted after D. Budugan, „Contabilitate și control de gestiune”, Second Edition, Publisher Sedcom Libris, Iași, 2002, pp. 24

In the conception of the authors T. Cuyaubère and J. Muller [4] the roles of management accounting are grouped into three broad categories:

- Represents a system for measuring the activity carried out; the system must be as neutral and objective as possible.
- Helps in making decisions in which the costs analysis finds its own fundamental justification, management accounting being a database and a tool for treatment of information irreplaceable.
- Enables the management control by comparing the results obtained with the objectives set out above. Through management accounting it is possible to analyze the results (to show their components) and to provide a breakdown by product, industry or function. Cost analysis must also promote and realize the forecasts.

#### 4. Conclusions

Management accounting can therefore be regarded as an internal management tool that helps managers understand changes in the activities and to meet established objectives. The managers use financial and non-financial information from the management accounting to calculate product costs and to develop and plan their basis activity.

In conclusion we can say about the management accounting that it is serving to identify, quantify, collect, analyze, process, interpret and communicate financial and non-financial information in order to achieve the functions of planning, assessment and control and to ensure proper use and management of its resources.

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# Effects of Direct Taxation in Romania on the Evolution of Business Environment

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## Abstract

*This paper aims to research the impact of fiscal policy issues in the field of direct taxation on business environment in Romania. This purpose is divided into two operational objectives: the evolution of direct taxation measures and the impact of fiscal policy on Romanian private business environment. To capture, in an econometric analysis, macroeconomic dimension of fiscal policy were chosen as variables: the total tax rate to highlight tax policy in direct taxation, gross domestic product and gross capital formation to capture business environment size.*

*Using regression technique, the analysis of the impact of fiscal policy measures on the business environment in Romania in the period 2006-2014 shows a negative correlation between the independent variables (especially labour tax rate, which has the highest level) and the two dependent variables (gross domestic product and gross capital formation).*

**Key words:** Direct Taxation, Total Tax Rate, Labour Tax, Gross Capital Formation, Business Environment.

**J.E.L.:** H21

## 1. Introduction

This study has as fundamental issue to deepen the impact of the fiscal policy objectives in the field of direct taxation on business environment in Romania. The fundamental objective is divided into two operational objectives: evolution of the measures in the field of direct taxation adopted in Romania and the impact of fiscal policy on the Romanian business environment.

In other words, econometric analysis done

in this article aims to answer questions such as: Did the evolution of fiscal policy measures in the field of direct taxation has an effect on the business environment in Romania? How big is that effect? Are these measures a good things for business environment and for capital attraction on Romanian market?

This econometric study aims to: determine the relations linking the variable "total tax rate" and its components as independent variables / explanatory variables to "gross domestic product" and "gross capital formation" as dependent variables; building a linear econometric model to analyze how it can answer the research questions formulated; prediction of the dependent variables "gross domestic product" and "gross capital formation" according to the variable "total tax rate" and its components as independent variables/ explanatory variables; explain the effect it has the independent variable (explanatory) chosen, "total tax rate" and its components, on the dependent studied variables (result), respectively "gross domestic product" and "gross capital formation".

We expect that the conclusions drawn from the econometric analysis of specified model to confirm the hypothesis that the level and evolution of GDP and gross capital formation to be explained by an negative correlation between them and the explanatory variables.

This article is divided into three sections - the first section shows the evolution of fiscal policy measures in the field of direct taxation in Romania in the period 2006-2015 adopted under the pressure of international criticism, the second part presents the econometric study that aims to answer to the questions above: did measures adopted in the field of direct taxation take effects on business environment? What is their effects?, and the last section presents the conclusions of the

analyse and confirmation of the hypothesis.

## 2. Direct Taxation in Romania 2006-2015

The impact of taxation on private business in Romania is very powerful. In our country, the main impediments are the level of taxation and tax legislation in our.

The level of taxation in our country is excessive. In 2006, an economic entity makes 108 payments to the state budget and the total tax rate reached 57.2 percents, 77.2% from this represent the labor taxes [1].

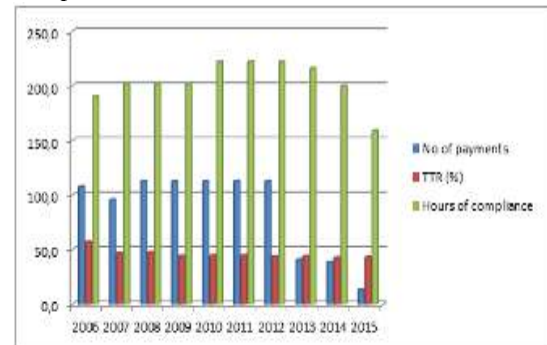
Under international critics pressure and economic evolution, Romania has taken measures that led to an improvement of situation, and in 2014, were made 39 payments for taxes owed, according to the PwCooper Report [9], of which 4 were taxes on profits and 12 taxes on labor and the total tax rate was 42.9% [9]. This was happening while in others country the number of payments not exceed 10, as in Norway and Sweden, in both countries entrepreneurs pay only 4 tax per year. In France businessmen who own companies pay only 7 annual fees and in Denmark just 10.

In 2015, the number of payments has considerably decreased, to 14 and the number of compliance hours decreased from 200 hours / year to 159 hours / year, but the total tax rate increased to 43, 2% [10].

The level of direct taxation in Romania is very high. On average, 43% of salary costs represent tax liabilities and only 57% is net salary that reached to the employee. Profit and net income is taxed with 16%. Total taxes on profits and dividends paid to individuals lead the tax profit to 29.44% effective tax rate.

In the chart below is represented of the the three essential aspects that burdening in a fiscal point of view the activity of an economic entity, namely: the overall level of taxation (TTR - total tax rate, expressed in percent), the number of payments carried out and the number of hours required to comply with applicable tax laws.

Chart 1. Evolution of the TTR, the number of payments and the number of the hours of compliance in Romania, 2006-2015



Source: The own processing of the informations available in the PwCooper Reports: *Paying taxes 2006-2015*

As can be seen from the chart no 1, in the last two years, the values of these tax parameters decreased considerably, in particular the number of payments, which decreased from 113 (2008-2012)[3-7], 41 (2013)[8], 39 (2014)[9] to 14 (2015)[10]. The number of hours necessary to fulfill the tax liabilities also decreased from 222 hours / year maximum level reached in 2010-2012 period to 159 hours / year in 2015[1-10]. These reductions are due to the introduction of an electronic system that allows both the submission of documents and the payments.

A tax factor with a major impact on the private business environment in Romania is the labor taxation. As shown in the chart below, in any year within the period analyzed (2006-2015), the share of labor income tax rate in total tax rate paid by an economic entity has not fallen below 70%. The lowest value was recorded in 2013 (71.27%) and the highest value in 2009, when the labour taxes represented approximately 80% of the total tax rate[1-10].

## 3. Data and Methodology

To highlight the impact of fiscal policy measures reflected here by the reduction of the total tax rate on Romanian private business environment, the article analyze the correlation between TTR (total tax rate), gross domestic product and gross capital formation in Romania in the period 2006-2014.

**Gross Domestic Product (GDP)** is the main macroeconomic aggregate of the System of National Accounts, that

characterizes the final result of production activity of resident producing units, and which corresponds to the value of goods and services, produced by these units for final consumption. [11]

**Gross Capital Formation** measures the net value of resident units' acquisitions of goods and services, produced but not consumed in the current period, and includes the gross fixed capital formation, the stocks variation. [11]

To estimate the correlation between fiscal policy (shown here by the reduction of TTR measures) and macroeconomic indicators mentioned below will be used the regression technique, more exactly the least squares method to determine the parameters of the regression equation for the individual variables.

The regression equation is:

$$Y = \alpha + \beta X$$

where

Y - is the dependent variable

X - is the independent variable

$\alpha$ ,  $\beta$  - are the parameters of the regression equation.

Because, in Romania, the tax on labor is over 70% of the total tax rate paid by an economic entity, the study was disaggregated on the components of TTR, estimating the correlations between income tax, labourtax, other taxes, GDP and gross capital formation.

To reveals the impact of labour tax on Romanian private business environment, I detailed the analysis, building multiple linear regression equations as follows:

$$GDP = c(1) + c(2)*P + c(3)*L + c(4)*OT$$

$$GCF = c(1) + c(2)*P + c(3)*L + c(4)*OT$$

where

GDP, FBC - are dependent variables

P, L, OT – refer to profit tax rate, labour tax rate and other taxes rate and they are the independent variable

c (1), c (2), c (3) c (4) - are the parameters of the equations.

In this situation it was analyzed the correlation between each component of TTR (profit tax, labour tax and other taxes), GDP and FBC.

Descriptive statistics for all variables mentioned above can be found in the table below:

Table no.1. Descriptiv statistic of the variables

Sample: 2006 2014					
	GDP	GCF	P	L	OT
Mean	506.36	134.71	10.033	34.93	1.93
Median	514.70	133.90	10.40	34.20	2.20
Maximum	637.58	160.99	10.50	44.60	2.20
Minimum	344.54	91.290	8.20	31.50	1.10
Std. Dev.	89.570	24.923	0.779	4.30	0.47
Skewness	-0.349	-0.520	-1.733	1.36	-1.30
Kurtosis	2.456	2.042	4.469	3.817	2.75
Jarque-Bera	0.294	0.750	5.314	3.045	2.59
Probability	0.863	0.687	0.070	0.21	0.27
Sum	4557.27	1212.44	90.30	314.4	17.40
Sum Sq. Dev.	64182.80	4969.5	4.860	148.36	1.80

Source: Own calculation of the data available on [www.insse.ro](http://www.insse.ro) and in PWC Cooper Reports: Paying Taxes 2006-2015

The correlation between GDP and components of TTR

Using the same method to determine the coefficients, respectively the least squares method (LS), the regression equation for the period 2006 to 2014 is shown in the table below.

Table. No.2. The correlation between GDP and components of TTR

Dependent Variable: GDP				
Method: Least Squares				
Sample: 2006 2014				
PIB=C(1)+C(2)*P+C(3)*L+C(4)*OT				
	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	976.85	202.12	4.832801	0.0047
C(2)	0.397	16.38	0.024250	0.98
C(3)	-17.76	2.932	-6.056057	0.0018
C(4)	75.55	26.820	2.817228	0.032
R-squared	0.901	Mean dependent var	506.36	
Adjusted R-squared	0.842	S.D. dependent var	89.57	
S.E. of regression	35.582	Akaike info criterion	10.282	
Sum squared resid	6330.59	Schwarz criterion	10.370	
Log likelihood	-42.27	Durbin-Watson stat	2.304	

Source: Own calculation of the data available on [www.insse.ro](http://www.insse.ro) and in PWC Cooper Reports: Paying Taxes 2006-2015

Based on data from Table no.2, the regression equation between fiscal policy measures and GDP is of the form:

$$\text{GDP} = 976.85 + 0.39 * P - 17,76 * L + 75,56 * OT$$

According to the econometric equation, the correlation between independent variables and GDP in the period under review is as follows:

- Between GDP and profit taxes the correlation is positive, meaning that a 1% change in the rate of this tax, GDP will change in the same direction with 0.39 billion.
- Between GDP and labour tax exists an negative correlation, ie the decrease with one percent of labour tax, GDP will increase with 17.76 billion lei.
- And between GDP and other taxes are positive correlation, meaning that a 1% change in the rate of these taxes, GDP will change in the same direction with 75.56 billion lei.

The coefficient of determination (R Squared) for the regression equation shows that 90.13% of the variation in GDP is explained by modifying components of the total tax rate.

The correlation between gross capital formation and the components of TTR

Using the method of least squares (LS method) for the period 2006-2014, the regression equation is shown in the table below.

*Table. No. 3. The correlation between gross capital formation and the components of TTR*

Dependent Variable: GCF				
Method: Least Squares				
Sample: 2006 2014				
FBC=C(1)+C(2)*P+C(3)*L+C(4)*OT				
	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	233.40	117.99	1.978	0.104
C(2)	-0.959	9.566	-0.100	0.92
C(3)	-3.697	1.712	-2.159	0.08
C(4)	20.74	15.65	1.324	0.24
R-squared	0.565	Mean dependent var		134.71
Adjusted R-squared	0.305	S.D. dependent var		24.923
S.E. of regression	20.772	Akaike info criterion		9.206
Sum squared resid	2157.37	Schwarz criterion		9.293
Log likelihood	-37.42	Durbin-Watson stat		1.588

Source: Own calculation of the data available on [www.insse.ro](http://www.insse.ro) and in PWC Cooper Reports: Paying Taxes 2006-2015

Based on data from Table no.3., regression equation between fiscal policy measures and GDP is of the form:

$$\text{GCF} = 233.41 - 0.96 * P - 3,70 * L + 20,74 * OT$$

According to the econometric equation, the correlation between the evolution of the independent variables and GCF is as follows:

- Between GCF and profit taxes is a negative correlation, meaning that a 1% change in the rate of this tax, GCF will change in the opposite direction with 0.96 billion.
- Between GCF and labour tax is, also a negative correlation, respectively a lower labour tax rate with 1% will conduct to an increase in FBC with 3.70 billion.
- And between GCF and other taxes is a positive correlation, meaning that a 1% change in the rate of these taxes, FBC will change in the same direction with 20.74 billion lei

The coefficient of determination (R Squared) for the regression equation shows that 56.59% of the variation in gross capital formation is explained by changing in components of the total tax rate.

Using regression technique to analyze the impact of fiscal policy measures on the business environment in Romania, during 2006-2014, we obtained the following results: correlation between TTR and GDP is negative, meaning that a 1% reduction of TTR in an increase GDP of 15.83 billion lei; correlation between TTR and FBC is also negative, meaning that a decrease of 1% of TTR leads to an increase of 0.09 billion lei of FBC; between income and GDP is a positive correlation indicating that the change with 1% of profit tax, GDP will change in the same direction with 0.39 billion lei; correlation between labour tax rate and GDP is negative, indicating a change of 17.76 billion lei in GDP to a change of 1% in labour tax rate; the correlation between profit tax rate and GCF is negative, ie reduction of 1% of profit tax leads to an increase of 0.96 billion lei of GCF; and the correlation between GCF and labour tax rate is

obviously the negative one - coefficients of the regression equation indicating that a decrease with 1% in labour tax rate would lead to an increase of 3.70 billion lei of gross capital formation.

#### 4. Conclusions

This element of fiscal policy, the tax rate, has a major impact on both the national economy and the activity carried out by an economic entity. Romania, in recent years has taken measures in this direction, reducing both the total tax rate, but especially the taxes on labour.

This paper aims to analyze the impact of fiscal policy measures on private business in Romania. To capture in an econometric analysis of fiscal policy and macroeconomic dimension, respectively the business environment, were chosen as variables: the total tax rate to highlight tax policy in direct taxation, gross domestic product and gross capital formation to capture business size.

Total tax rate (TTR) is a variable that captures all direct taxes levied in Romania from an economic entity and was chosen also because it had a downward trend in the period under review due to criticism brought to Romanian fiscal policy on international plan in this point of view (see PWC Reports, *Paying Taxes 2006 to 2015*).

For this reason to surprised if, indeed, the tax measure to reduce the total tax rate has an effect on business environment, this article addresses through an empirical analysis, the components of total tax rate impact on the GDP and the gross capital formation.

The empirical analysis results are as expected, the correlation between total tax rate (independent variable) and GDP and FBC (dependent variables) is negative - reducing the tax rate (profit tax rate, labour tax rate etc) has increased GDP and gross capital formation in the period, and tax measure in the field of direct taxation adopted is an auspicious for local businesses and to attract capital on Romanian market. Other deficiencies of the tax system in our country, which put pressure on business environment relates primarily to: slow recovery of tax claims, the fixed deadlines for payment of taxes, the lack of consistency and transparency in the application and his interpretation of tax provisions by the tax

authorities and the lack of consistency and predictability of the tax system and tax rules enforcement. Although Romania has unified all tax regulations since 2004, introducing the Tax Code in 2004, the frequent legislative changes make it difficult business environment and beyond.

Another important aspect in addressing any fiscal policy is providing by tax incentives and how they influence business activity.

#### 5. Acknowledgement

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## Strategies for Improving the Economic and Financial Performance of the Hotel Companies in the Romanian Seaside Area

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### Abstract

*Nowadays, the hospitality industry, as other sectors, is characterized by fierce competition, at the level of the hotel company. Some of these companies succeed in facing the competition while others fail. As a result, they increasingly need a new model of tourism policy which influences their competitive position under the current competitive conditions.*

**Key words:** The strategy; a hotel industry; the economic and financial performance.

**JEL classification:** M20; M29; M41;

### 1. Introduction

The Black Sea resorts comprise a large percentage of the number of the accommodation places in Romania. 31% of the registered hotels in the country are on the coastline, with a number of beds representing 45% of the total number available at the country level. However, these hotels are open for an average of 102 days per year; therefore, in this short season, they obtain an occupancy rate of approximately 50% in the months from June to August; then they experience a decline in terms of the occupancy rate, reaching about 20% in September- November and, at the beginning of the year, they reach a level of 10-15%.[1]

Setting the goals that ensure the development of the Romanian coastline is one of the main stages of developing the strategy, the goals being understood as its essence. The strategy of the services provided to tourists represents the Action Plan, which aims at achieving positive accounting results relative to its competitors.

In the determination of a competitive strategy regarding tourism products, the managers of hotel companies use the following practices:

- determining, analyzing and selecting the essential elements of the strategy;
- knowledge of the needs arising as a result of strategy implementation;
- placing the main elements in a complex strategic plan.

A manager should have knowledge of the competing business practice, as it is not enough to have knowledge of his/her own work and clientele. Knowledge of competitors is the basis for his/her vision and policy orientation in order to create strategic plans that help increase competitiveness on the hospitality industry market, which can be assessed also by reflecting the economic and financial performance, by specific indicators.[4]

### 2. The strategy of domination by costs

This strategy aims to achieve the lowest production and distribution costs, so that the prices of the products sold fall below those of the competition, triggering, at the same time, a greater market share.

By choosing this strategy, an enterprise with traditional production systems aims to become the producer that has the lowest cost in the industry. The company will have a broad competitive purpose, serving many market segments, being able to operate even in interconnected industries.

*This type of strategy is advantageous for the company because it will protect it against:*

- aggressive competition, so that the cost advantage will facilitate uniform high profit margins;
- strong customers who are able to

demonstrate their power when they find competing companies that offer more favorable selling prices.

### 3. The strategy of domination by costs within the hotel company

Applying the strategy of domination by costs obliges companies to find those areas that are potential sources of savings or of cost reduction. Because of a large number of factors and of their complexity characterizing the hospitality industry in Romania, there are practiced numerous pricing strategies. Due to this market demand characteristics, its seasonality activity, the functioning and organization of the time for the holidays and the market segmentation, we conclude that all these factors determine a price differentiation strategy.

The analysis undertaken in three hotel companies reveals the existence of practices carried out at the level of the pricing policy. Price developments in tourism depend on economic- social, political, motivational, geographic factors and, especially, on the heterogeneity of the tourism product.

The role of these prices is evidenced by the functions they perform, such as the quantification and calculation of costs and outcomes, and the producers' incentive and income distribution. In hotel companies, managers should continually adjust tariffs to the seasonal variations in the tourist demand. They should relate to the ensemble of a tourist complex, taking into account the services included in its structure.

Regarding the activity of the analyzed hotel company, we noticed the strategy pursued by the companies' management in order to adopt stricter measures and to re-size costs, to avoid recording negative profitability indicators.

Considering the specific hotel activities and the expenses incurred in advance of the revenue earned, and the decline in the tourist traffic, the analyzed companies failed to record a business operating profit for the reference period.

Applying the strategy of domination by costs obliges companies to find those areas that are potential sources of savings or cost reduction.[2]

In the hospitality industry, there are several strategies of pricing policies such as:

*Practicing a high tariff (price)*, a strategy that is often used in summer, especially in the coastal zone. Practicing this high price in high season is due to the seasonality of the tourism demand, a large part of the costs of the operating activities being included in the prices from the peak season.

Table 1. Turnover ( CA) to cover the expenditure from operating activities  
thousands euros

Indicators	n	n+1	n+2	n+3
CA	1025	1205	1221	869
Operating expenses related to CA	789	845	1016	787
CA-Ch variation	236	359	205	82
Total number of tourist days	11346	11607	12897	10057
Average revenue per tourist day	90.32	103.75	94.69	86.45
Variation in the average revenue per tourist day	20.76	30.96	15.92	8.17
Average revenue per tourist day minimum	69.57	72.78	78.77	78.27
CA to cover the expenditure from operating activities	789	845	1016	7876

Source: Data processed and calculated from the financial statements of SC A SA [5]

Table 2. Turnover (CA) to cover the expenditure  
thousands euros

Indicators	n+4
CA	702
Operating expenses related to CA	716
CA-Ch variation	14
Growth index	2.04
Number of tourists	4310
Minimum number of tourists to cover expenditure	4398
Total number of tourist days	8275
Total tourist days to cover expenditure	8444
Average length of stay	7.65



Average revenue per tourist day	84.84
CA to cover the expenditure	716
Current occupancy	45,00
Minimum occupancy	45.91

Source: Data processed and calculated from the financial statements of SC A SA [5]

The model for calculating the minimum turnover for covering the associated operating costs: Based on the data contained in the table below, we have highlighted the extent to which a hotel industry can afford to adopt a policy of reducing the average revenue per tourist day, lowering the charges for the tourist services provided in order cover the average expenses per tourist day.

Thus, SC A SA, in the year  $n$ , can decrease its average revenue per tourist day to 20.76 euros, reaching a turnover of 789,327 euros, respectively its reduction by 22.98%. In the year  $n + 1$ , the reduction in the average revenue per tourist day can be done with 30,96 euros, the turnover registering a value of 844,793 euros, and the reduction being by 29.84%. In the year  $n + 2$ , in order to cover the expenses related to the turnover, the company may reduce the average revenue per tourist day by 15.92 euro, the turnover having a value of 1,015,925 euros, the reduction being by 16.82%. In the year  $n + 3$ , against the background of the economic crisis, it is found that the company may reduce the average revenue per tourist day by only 8.17 euros, the turnover having a value of 787,196 euros, the reduction being by 9.45%. In the year  $n + 4$ , when the tourism company recorded a loss, in order to cover the expenses related to the turnover, while maintaining the average length of stay at 7.65 days and the average revenue per tourist day of 84,84 euros, the company must attain a minimum level of 4,398 tourists, leading to an occupancy rate of 45.91%. This can be achieved by aggressive marketing policies but also through diversified services. We chose this tourism company as an example because, during the period analyzed, it recorded both profit and loss.

*Unfortunately, the strategy of flat or total rates does not characterize the hospitality industry at the national level and of the Romanian seaside area; this strategy should*

be adopted by the local hotel companies, which could lead to benefits such as the increased revenue per total tourist day due to the consumption of other goods and services.

The low tariff strategy is often used when trying to penetrate the market or strengthen the positions on the market, or in order to regain some markets where there is fierce competition, as in our case: Northern countries belonging to the European space. This low price strategy is an effective way which aims to determine tourists to choose the hotel company practicing this kind of policy.

Another policy to attract tourists on the seaside, by hotel companies and managers, is the practice of low rates in the various social programs that promote low prices in low season. The aim of this strategy is to increase the average length of stay and, thus, increase the revenues from the accommodation activity and from other related activities. This strategy can also be found at the hotel Condor, although this company is open only 153 days a year, being also affected by seasonality.

#### 4. The differentiation strategy

The company aims to achieve a competitive advantage determined by the existence of a unique product that is perceived within the industry and appreciated by the majority of customers. The company will also aim to achieve superior performance, which results in providing leadership in its field of activity. Applying this strategy is based on intuition and creativity, high capacity in terms of the strengths that the company has, compared to the competition.

*The strategy of differentiation in the hotel company*

The starting point of this type of strategy should be represented by the particularities of the Romanian seaside tourism, creating a unique advantage that can be perceived within the industry or on the market segment and not only; in other words, we should rely on originality in order to promote services to thwart competition.

In the tourism industry, we note that there is no policy based heavily on differentiation, on creating a single unique product spread throughout the market and appreciated by the

majority of customers, in order to persuade them to take this advantage, after paying a sum of money in advance.

Therefore, the tourist offer lacks originality and diversity in order to be really attractive. Unfortunately, the hotel services are standardized, by offering accommodation and food, which also characterize the practice of the two hotel companies of our case study.

As a result of our research undertaken, we note the absence of policy differentiation strategies pursued by the hotel industry regarding the tourism product; therefore, we recommend the use and implementation of complex service packages that include, in addition to accommodation services, other additional services of leisure and food, such as the all-inclusive concept; even if this concept is not really new, it lacks from the tourist offer and the adoption of such a strategy would lead to the revenue growth of hotel companies. However, in order to achieve this, it is necessary to improve the material base, to develop and diversify the tourism and food products offered, to replace the stereotype offers with new and more attractive ones, to adapt to the current trends on the tourism market.

*This differentiation should be based on key elements such as product and customer service quality, the quality of the facilities that might be found in a hotel complex.* It is noteworthy that this strategy was successfully applied in countries such as Bulgaria, Turkey and Greece, which are our main competitors in the coastline segment; this success is measured by the contribution that tourism plays in the GDP of each economy.

Thus, the absence of differentiation strategies, able to provide a competitive product, compels the Romanian tourists to go to other destinations, at the same prices charged on our coastline, but with more qualitative correspondent services.

## 5. The concentration strategy

It implies a company's focus on a narrow market segment, called niche (a group of customers, a marketed product type, a geographic area, etc.), and holding an irreplaceable position in this segment. Knowing exactly the specific needs of this segment, the company will choose either a

strategy of domination by costs or a strategy of domination by differentiation. Therefore, when choosing the strategy of domination by cost, the company specializes in a certain class of customers, in order to gain a competitive advantage by cost. In a market where products are sold in large numbers, one can also create a place for a company able to secure a competitive advantage from sales in small quantities to marginal customers. This is possible because, for small quantities, the average cost of the small-sized company will be lower than the average cost of relatively larger-sized company.

The representative element of the concentration strategy is to identify the niche where a company may successfully carry out its activity and know its target customers. This type of strategy can be used best when it wants to penetrate a market. Any type of approach to a company's policy should be based on one of the three orientations.

## 6. Conclusions

Based on a strategy or another, the company will adopt a certain behavior when facing competition, customized according to the specific environmental conditions and to its internal potential, developing a particular strategy with elements of originality. M. Porter's approach tried to avoid standardized behaviors, which could become dysfunctional by trivialization [3].

The strategy shows how the organization can create value for the society. It is not common speech, but it directs behaviors, knowledge and decisions under a common goal: creating value.

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## Arguments for the Assessment of the Inventories at Net Realisable Value

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### Abstract

*This paper aims at highlighting the inability of the annual financial statements in its present format, to restore economic substance, to present the true financial position of a company in the balance sheet. This inability is due to the use of "historical cost" valuation as the basis for all stocks, regardless of the operating flow stages located and their destination.*

**Key words:** inventories assessment, historical cost, fair value, realizable value

**J.E.L. classification:** M41

### 1. Introduction

The actual version IAS 2 "Inventories" sustains as general treatment of the assessment of inventories, the system that has as basis of evaluation the historical cost (the cost of purchase, the cost of production), combined with the net realisable value, indicating at the 9th paragraph: "The inventories must be assessed at the smallest value between the cost and the net realisable value". The Standard extends the area of the inventories to which the assessment requirements given by the IAS 2 do not apply, but they still apply for the other requirements of the Standard [1].

So, at the third paragraph The Standard indicates "producers of agricultural and forestry products, agricultural production after the crop and ore and other ore products, as long as they are assessed at the net realisable value consonant with the prestablished practices in these domains of activity"[1].

When these types of inventories are assessed at the net realisable value, the modifications of this value are recognised in

the benefit or the loss of the period in which takes place the modification.

The inventories reminded in the third paragraph are assessed in certain periods of the production, at the net realisable value. These cases appear, for instance, when the crops are reaped or the ores have been extracted, and the sale is insured by a contract or a governal guarantee or when there is an active market, then still exists a risk, but a minor one.

These categories of inventories are excepted, so, only from the requirements of assessment from The Standard. Also, in the third paragraph The Standard indicates in this case "the brokers from the exchange of goods that assess their inventories at the fair value minus the costs of sale" [2].

When these types of inventories are measured at the fair value minus the costs of sale, the modifications in the fair value minus the costs of sale are recognised in the benefit or the loss of the period when the modification was made.

The brokers are the ones that purchase or sell goods for others or sell in their account. The inventories mentioned in the third paragraph are acquired, mostly, for sale in the near future and generate profit out of fluctuations of price or from the speculations of the brokers. When these inventories are assessed at the fair value minus the costs of sale, they are excepted only from the requirements of evaluation from this Standard [2].

IAS 2 "Inventories" state that this Standard doesn't apply to the assessment of inventories owned by the producers of agricultural and forestry products, agricultural products after the crop and ore or other ores and the brokers from the goods exchange, without indicating how are these evaluated, as it is indicated in the third paragraph for the inventories that they are excepted from the applicability of this

Standard.

A question raises, whether there is a deficiency in the conception and in the drawing up of the Standard, or the organ of regulation, The Council, has appreciated that the references from the third, fourth and fifth paragraph from the Standard and the ones from the paragraphs BC6, BC7, BC8 from "Basis for conclusions" regarding the assessment of these inventories are sufficient for building their evaluation?

If the first hypothesis confirms, it is required to be initiated a new Standard that could describe the accounting treatment of the inventories' assessment at the specified entities, or these should be introduced in the structure of another standards (for instance IFRS 6 "The exploitation and the assessment of the mineral resources", IAS 41 "The Agriculture").

If the second hypothesis also confirms – more precisely if the references from the Standard and the Basis for conclusions are sufficient for the evaluation of these inventories, it means that IAS 2 has taken in its domain of applicability the treatment of their inventories' evaluation. This Standard doesn't apply to the evaluation possessed by "changing the texts" place from the third, fourth, fifth paragraph in the structure that treats "the assessment of the inventories".

The fact that The Standard 2 revised (2005) extends the area of the inventories to which the requirements of assessment instituted by the IAS2 (the smallest value between the cost and the net realisable value) doesn't apply and admits that certain entities should evaluate the inventories at the net realisable value, more precise at the fair value minus the selling costs), reinstates the present topic the treatment for the evaluation of the inventories at cost. At the same time, it brings in discussion the motivations, the arguments and the reason they have used, since they came with the decision that the inventories possessed by the some entities are set to be evaluated at the net realisable value or at the fair value, can or cannot be extended to other entities' inventories!

The extending made by the IFRS in the treatment of the inventories' assessment starting from the net realisable value and from the fair value, I consider that this is the reaction at the limits of the treating the assessment on the basis of cost. The limits of

"historical cost" have become more obvious and have been felt with the adopting by the IFRS of the concept of "fair value" for the evaluation of the financial statements' structure. Since this fair value expresses better the value dimension of the possible cash flows or cash equivalents generated, in the case of my research, by the existent inventories at balance sheet date and assures better conditions to accomplish grievance to render with the help of the financial statements the fair image over the financial position and over the economic performances of the entity.

In this context appears the problem if "the historical cost" (the cost of purchase, the cost of production) can constitute a sufficient basis for the assessment of the entities' inventories, meanwhile for some entities, inventories of the same nature and destination are set by the IFRS to be assessed at the "net realisable value" and at "the fair net value".

## 2. Content

Starting from these coordinates, in my research, I have made an analysis of the factors that support the principles and the assessment's requirements of the financial statements' structure and specially of the inventories to explain and to substantiate a basis of evaluation in order to express in a faithful way the economic value of the assets and of the inventories at financial statements date.

"The Framework" of the IFRS defines the assessments as being "the process through which are determined monetary values, where the financial statements' structure will be recognized in the balance sheet and in the income statement" and specifies more basis of evaluation that can be used in financial statements in different situations and with diverse usage (historical cost, current account, realisable value, fair value, current value).

Every basis of evaluation is defined and explained in the terms cash flows or cash equivalents that the assets and the liabilities emit or can emit.

There can be distinguished, after the analysis of the basis feature, mentioned by the Framework, two categories of evaluation basis:

- basis of evaluation that is dimensioned on the cash or cash equivalents paid in the moment of the purchase of the asset, or should be paid if the same asset or a similar one would be purchased presently (historical cost, current cost);

- basis of evaluation that is dimensioned on the cash or cash equivalents that can be obtained through a normal sale of assets (inventories).

The first category is based on the cash outflow (payments) or cash equivalents when the inventories are constituted and the second category is based on the cash inflows (proceeds) or cash equivalents from the sale of inventories.

The General Framework states in the paragraph no 101, the fact that the basis of evaluation most frequently adopted by the entities in the elaboration of the financial statements is the historical cost. There appears a question, why is it that historical cost represents "the basis of evaluation most frequently adopted by the entities in the elaboration of the financial statements" since for years it has been so criticised?

Why is it that, during the process of perfecting the convergence and the harmonization of the accounting standards have been accepted basis of evaluation more appropriate to create the faithful image, as they are, the realisable value, the fair value, some Standards, as in IAS 2 "Inventories", it still continues to impose the evaluation at the "historical cost"?

I consider that, in the reason of the regulations of IFRS, that indicates in the general Framework the basis of evaluation of the assets and of debts, without being hierarchical arranged and without being stated the fact that it is imposed that all the other IFRS and IAS to be guided to choose the basis of evaluation that assures a credible estimate of the assets and debts at financial statement date.

Out of the IAS 2 analysis "Inventories" I understood that the standard doesn't explain, doesn't motivate the reason of establishing the evaluation rule (9th paragraph) "the inventories must be evaluated at the smallest value between the cost and the net realisable value".

Due to this rule the inventories are not evaluated neither based on "the historical cost" not based on "the net realisable value",

but on combining the two basis of evaluation considering the smallest value.

By applying this rule of evaluation instituted by the IAS2, there can appear situations at the same categories of inventories, some assortments can be evaluated based on the historical cost, others based on the net realisable value.

This rule instituted by the IAS 2 "the inventories" is motivated and justified in some speciality writings, as being requested by "the principle of prudence" at the evaluation of assets and payables, principle that requests that, in evaluations the assets and the expences not to be overestimated, but the liabilities and the incomes not to be underestimated. Based on this principle, the accounting treatment assumes that every loss of value of some assets resulted from the estimations when the inventory was made, confronted with the value recognized in accounting, must be registered when elaborating the annual financial statements, and every gain of value must not be recognized in accounting. In other words, any impairment must be registered and it will also be a component of the costs (the registration of the impairment is made through expences) [3].

Out of the assessment rule of the inventories, according to IAS 2, I ascertain that the historical cost and the net realisable value don't constitute a combination of the two basis of evaluation, as the general Framework mentions, but actually this rule takes as basis of evaluation "the historical cost" and uses "the net realisable value" to estimate the impairment of the assets, when the level of the net realisable value is under the level of the inventory's cost.

To conclude, the net realisable value, as recoverable value of the inventories is important in the process of evaluation of the inventories only for the estimation of their impairment, necessary for the adjustment of the historical cost in accounting and in financial statements. Therefore, we notice that "the net realisable value" is not orchestrated as basis of the inventories.

If IAS 2, "the inventories", doesn't consider as basis for the evaluation of the inventories "the net realisable value", I wonder if it is better not to impose this for a better presentation of the financial statements of the economic value of the

inventories and of their effects in the entities' results. Considering that the version IAS 2 from 2005, has admitted already for some entities to evaluate the inventories at the net realisable value" and at "the fair net value".

Out of the research undertaken an idea appeared, that the basis of evaluation detained by an entity must not be the same for all the categories and for all type of inventories. Choosing the basis of evaluation must be made according to the purpose for which the inventories have been constituted and according to their destination in the flow of productive-economic processes, processes that generate cash flows or cash equivalents[4].

Taking into account the criteria of utility and destination of inventories, specified in the National Accounting Regulations, the inventories can be classified into three big groups: inventories detained for the activity of exploitation, inventories still in process and inventories destined to be sold.

The three groups of inventories correspond to the main stages described by these in the flows of the cycle of exploitation of the enterprise:

-Stage I, are formed the inventories necessary to the activity of exploitation (purchase and other);

-Stage II, are processed the inventories, remade to be in accordance with the activity of every entity;

-Stage III, are constituted the inventories destined to be sold.

The inventories formed in the Stage I, assessed at the cost of purchase, after their process of production, in Stage II, they are given value, being transformed into semi-products, finite products and evaluated at the cost of production (the cost of purchase + the cost of improvement). In Stage III, together with the goods purchased the inventories are prepared to be delivered on the market, or to the clients, at the selling prices negotiated through the contracts signed with the clients or at the market price.

At financial statements date the inventories are in different stages, so they are presented and reported consequently.

For the assessment of the inventories, in the financial statements, I express the opinion that, according to the stage they are in the cycle of exploitation of the entity and depending on their destination, it is imposed

to choose a basis of evaluation that can allow a credible estimation of the inventories' value, in accordance with their economic value, the amount of cash inflow or cash equivalents that can be obtained out of their revaluation.

Due to this fact, when assessing the inventories it is not sufficient to choose only one basis of evaluation (for all types of inventories) and namely the historical cost to assure a credible evaluation, being necessary to resort to other basis of evaluation that corresponds to each inventory.

The assessment of the inventories in financial statements doesn't represent anything else but the expression of the inventories in monetary units determined on the basis of cash inflows that can be obtained at balance sheet date and of income statement.

Starting from the facts I have analysed in this research the features of three categories of inventories, out of the perspective of the value of cash inflows that can be obtained at balance sheet date.

The inventories from the first group are meant for the achievement of exploitation activities, in the process of goods production, works execution, services, for the needs of the auxiliary activities and administrative, as well as for the selling activities.

These inventories are formed in the administration of the entity by purchasing from the caterer, being evaluated and registered in accounting at the cost of purchase. The cost of purchase is the expression of cash or cash equivalents paid in the moment of purchase of the asset.

These inventories are not destined to be sold, but to be used in the activity of exploitation. At balance sheet date, the inventories cannot be placed on the market to be sold and will not determine cash inflows, the only basis of evaluation being „the historical cost" (the cost of purchase).

Using the same arguments for the inventories in course of procession, the basis of evaluation for the registration in accounting and presenting in the financial statements is the cost of production, as a form of the historical cost.

The inventories from the third stage, at the financial statements date, are in the last stage of exploitation and are namely prepared to be sold on the market.

In this stage from these inventories it is expected, after the revaluation, the selling, the cash inflow and cash equivalents to be at the level of the selling price. These inventories are characterised by the fact that every item or article has an established selling price. This can be the negotiated price and covered by the contracts with the clients; the price announced by the offer of price launched to the possible customers; the selling price is labelled on the merchandise.

Most entities for the biggest part of the inventories destined to be sold have delivery contracts with clients in which are written the prices of sale or dispose of large commands from the customers. Consequently, at balance sheet date, the inventories are covered with contracts or large commands in which are negotiated the selling prices.

Knowing the features of the inventories destined to be sold and the economic potential, a question raises: which basis of evaluation will be chosen (the historical cost and the net realisable value), for the their estimation and the presentation in the financial statements?

The solution to this problem supposes a reasoning based on the economic theory of the value in the context of the informative functions reserved to the financial statements through the General Framework, that enounces the basis concepts, the qualitative features of the information and the request of a fair image. In his case I appreciate that the choice of a basis of evaluation can be justified and motivated with strong arguments, basis that can assure a credible evaluation.

IAS 2 „the inventories” has chosen for the inventories destined to be sold as basis of evaluation „the historical cost” under the formula „the smallest value between the cost and the net realisable value”; as well as the other inventories. The standard makes a derogation from this basis of evaluation and takes out from the area of application only for evaluation, the inventories detained by some entities and admits that the assessment and the presentation in the financial statements can be made on other basis of evaluation and namely „the net realisable value”, „the fair value”.

the historical cost.

### 3. Conclusions

The inventories, the finite products, the semi-products destined to be sold and others detained by the entities and other tradesmen at the financial statements date, as I demonstrated earlier, have established prices of sale, most of them negotiated with the clients and the sale is assured, most of these inventories being sold between the financial statements date and the elaboration of the financial statements, presentation, approval and of their publication. Examined under this aspect I notice that the inventories from the third group „destined to be sold”, have identical features with the ones detained by the entities of agricultural production, forestry, ore exploitation for the IAS 2 „the inventories” allow the evaluation at the net realisable value.

The estimation of the net realisable value is based on the most credible evidences when the estimation of the inventories takes place which is expected to be achieved. These estimations take into account the price and cost fluctuations that are not directly connected to events that have intervened at the end of the period, when these events confirm the existent conditions at the end of the period.

When establishing the estimation of the net realisable value it must be taken into consideration the destination or the purpose for which the element is detained in the inventory. The net realisable value must be determined depending on the existent conditions at balance sheet date, the fair appreciation depends on the professional reasoning, and in the cases of the inventories that will be delivered with some contracts for the sale of goods, they will be sold at the contractual established price. There also must be taken into account all the information available at the moment of the assessment, including the subsequent modifications.

In this situation the net realisable value will be represented by:

- The contractual price for the goods that will be delivered based on firm contracts;
- General prices practised by the market, then the quantity detained by the inventories is bigger than the quantity that will be delivered in accordance with the contracts.

In the cases in which the quantities specified in the contract are inferior to the

ones in the inventory, the net realisable value of the surplus quantities is based on the general prices of selling, that is actually the fair value.

I argue my opinion, on good reasoning, that the inventories of goods and finite products will be assessed and presented in the financial statements based on the net realisable value, I have also made appeal to the Accounting Regulations that are in accordance with the European norms, that indicate: „The assets like inventories must not be reflected in the balance sheet at a bigger value than the value that can be obtained through their sale”[5]. Or this value isn't other than „the net realisable value”. It's true that, although the National Accounting Regulations request the presence of the inventories in the balance sheet at a value that isn't bigger than the one that can be obtained from „the use or the sale of the inventories”, what corresponds to the net realisable value, I record that it is not consistent with this demand in the treating the inventories' evaluation, going back to the evaluation based on the historical cost.

With these last arguments and with the ones stated earlier, I open the way to motivating the decision that can admit the fact that the inventories destined to be sold detained by all the entities to be assessed and presented in the financial statements at „the net realisable value” or „at the fair value minus the costs of sale”.

Taking into consideration what I have exposed, I consider that a balance sheet elaborated having as basis of evaluation the inventories destined to be sold, the net realisable value corresponds better to users need of information regarding the financial statements and objectives declared in the conceptual Framework, namely a fair, clear and complete image of the company's financial position.

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# The Relationship Between Budgets and Performance Measurement Systems

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## Abstract

*Nowadays the performance measurement system is related to the fact that the budgets seem incapable to fulfill a series of goals that used to be assigned to them. The present article focuses on the interactions between a pair of instruments and the factors that affect them directly. It sets out to demonstrate, based on the supporting research, that the evolution of budgets is only possible as long the existing performance measurement systems are capable to fulfill their critical functions.*

**Keywords:** budgets, contingency factors, management control systems, performance measurement system

**JEL Classification:** M40, M41

## 1. Introduction

Although in the traditional economy it seems that most SMEs operate relying solely on intuition, empirical reasoning and experience, without employing other information systems except those based on the essential accounting data [1], the frequent lack of these instruments can provide an explanation for a number of bankruptcy events [2]. The harshness of today's business world, sharpened by its growing complexity and globalization, makes it necessary to combine the intuition of managers with a more formal analysis, as well as with advanced management tools [3] and modern accounting information systems that are more complex and more active [4].

Nevertheless, it is noticeable that enterprises still rely on budgetary tools [5] just as much as they do on the performance management systems that are being developed in the business environment [6]. This ascertainment contradicts the perspective of the role coherence between

these tools. Can performance measurement systems serve as a substitute for the budgets that are no longer capable to fulfill their own roles? Furthermore, what are the factors responsible for the distribution of roles between this pair of tools? All these questions address both the theoretical aspects behind the design of management control systems and the interactiveness between their constitutive parts [7].

The research targets two objectives. The first refers to analyzing the relationships between budgets and performance management systems, in order to provide an assessment of the extent to which applying the former can determine a change in the roles corresponding to the latter. The other objective is to identify the factors that explain the connections that exist between the two.

## 2. The research issue

### 2.1. Management control system design

Currently undergoing a full process of evolution, management control is a field that has been studied by two distinct schools of research. The first school focuses on exercising control and power, emphasizing the need to use an accounting-based toolset, which can help achieve the expected results. The second school has a more pronounced behavioral dimension [8] and claims that the main function of a management control system is to influence the behaviors to increase the probability of achieving the objectives of the enterprise. The two schools have been promoting two different models in the science literature.

As postulated by certain authors [9], the classic or traditional model originates in Anthony's research work back in 1965. According to this author, management control represents the process by which managers can ensure the proper and effective

gathering and use of resources in order to fulfill the objectives of the enterprise. The limitations of this model concern the extent of its focus on the accounting and financial dimensions as part of the management control system, as well as on the exercise of power and its consequences, therefore drawing a clear distinction between strategic control and operational control.

Another limiting element is its integration into a normative theory dominated by the optimization of financial resources in order to reach the set objectives, and this vision only makes sense in a context of market stability, which is hardly possible these days.

The second model, which has a more behavioral nature, describes the management system as a process that enables the influence of behaviors [10] and that must favor the cooperation between individuals and various groups to achieve congruous results [11].

The issue of the relationships between the different ways of control that exist within an organization emerges at the level of organizational control, perceived as an interaction between the elements of formal control and the processes of informal control [12], but also for the management control. In the latter case, the difficulty consists in defining the particular roles of the tools accounting for the complementarities and differences of each so that the system works coherently as a whole.

## **2.2. Performance measurement system development and the limitations of budgetary technology**

Budgeting is one of rare few accounting practices that need to be adopted by almost all enterprises when they grow passed a certain size.

Budgeting represents the fusion of short-term action plans and serves as a reference for the budgetary control. Hence the need to draw a clear distinction between budgeting and budgetary control, with the latter standing for the ex post use of the budget to compare real data with provisional data, and between budget and budgetary process, namely the entire set of budgeting actions.

The budget, as envisioned by classical management control, is (or should be) the accounting and financial expressions of the

action plans retained so that the set objectives and the means available on the short term (generally a year) converge towards the accomplishment of the operational plans [12] and has been fiercely disputed in the last few years.

Experts all over the world have been working hard to find new effective ways to overcome the traditional approach of budgeting and have come up with a series of suggested solutions synthesized in an approach called Beyond Budgeting.

In short, budgets are blamed for their current incapability to cater to the needs of enterprises, which are now operating in a much more complex and insecure environment. The long-term and recurrent criticism that stresses out the difficulty, complexity and the excessive duration of the budgetary process [13] was later enforced by additional criticism targeting the budget functions [14].

There has been much involvement with changing the budgeting tool for better flexibility and for enhancing its specific practices. However, it appears that the budget is unable to satisfy the managers' own expectations and there is no need to eliminate is completely. Instead of that, it should be augmented by combining it with other tools that are better adapted to the actual problems of organizational management. As envisioned in the research literature, this task seems to fit – in theory at least – performance measurement systems [15]. These systems, whose main objective is to 'translate the mission and the strategy of the organization into a set of performance indicators that represent the groundwork of a strategy control system' [16], are now available, in the majority of existing market versions, as dashboards or Balanced Scorecards.

## **3.The method**

The research tool employed to collect data is research-development-action. The study was carried out empirically in a Romanian enterprise operating in the material construction sector.

The following approach differs from the approach promoted by Lewin, which is described as a classic research action.

The difference lies in the fact that its experimental tool is not predefined and that it

doesn't cater to the purpose of producing knowledge exclusively. Above all, it results from the will to develop an already existing entity. Because of that, it resembles more the research-action approach, such as the one applied by the Tavistock Institute: 'the research-action does not limit itself to uncovering the state of facts, but also helps to transform certain conditions that are perceived as unsatisfactory by the community'.

The starting point is a concrete problem: the introduction of driving tools within organizations in case their budgets should prove unsatisfactory in terms of driving and monitoring performance. The organizations addressed are the 4 regional affiliates of a French group (later on referred to as company X) operating in the material construction sector.

The initiator of the project is the group's financial director, who draws up the following observations:

- management controllers of the affiliate offices dedicate 55% of their time to budgeting (chiefly to budgetary control operations);
- collecting and strengthening report data is more important than analyzing results and forecasts;
- the frequency rate of budgetary reports encourages people to adopt short-term reasoning without relying on strategic considerations;
- the affiliates are incapable to furnish data concerning its clients and their production performance;
- the coordination between the production and the commercial activities leaves room for improvement.

Starting out from this diagnosis, the group's financial director wanted to achieve the implementation of performance measurement systems in all the regional offices.

The process was carried out in two phases:

- the 3 management controllers attended a 2-day training course to become familiarized with the theoretical aspects of driving performance. Subsequently they were given 3 months to confront the theory with the actual situations they are confronted with in their respective organizations;

- the second phase was divided into 3 stages, beginning with a restoration day during which the participants were given the chance to discuss their opinions on the main management issues concerning their organizations.

The objective of this debriefing was to establish an inventory of availability and to establish the objectives for the performance measurement system to be implemented. The phase of implementing the tools in different structures lasted for a period of approximately 12 months. This stage ended with a balance day during which each management controller established an inventory of the performance measurement systems implemented in its structure.

Organization X is an enterprise operating in the field of material construction. It produces cement, aggregates and concrete, and has a staff of 1100 employees. The structure of the enterprise includes 4 regional profit centers. Its majority stake is held by a French financial office. The results of enterprise X have been deteriorating since the end of 2009. The trigger for this downward slope was the abrupt rise in the price of materials, which caused a deterioration of the enterprise margin, therefore constraining the latter to stabilize the prices of its products because of the growing pressure by the competition.

The environment of enterprise X is not necessarily complex, but rather predictable and stable. The market evolution (on a downward slope) is easy to forecast. The competitors of the enterprise have remained the same for many years and the emergence of 'new entries' on the market is highly unlikely.

At the end of the project, the analysis of the situation indicates no real transfer of budgetary roles towards the dashboards. The strategy and the mode of operation of enterprise X provide a clear picture of the reasons why the budgetary practices of the organizations have not evolved in harmony with the implementation of the running tools.

#### **4. Budget significance**

The results have marked a departure from the initial objectives of the project. The dashboards were implemented inside the 4 profit centers of the organization. However,

their technological level is rather poor and the tools are rarely used. The dashboards have failed to obtain the legitimacy required to improve the performance by the margin demanded by the financial executive. The analysis of the context in which the projects unfolds reveals that the main culprit for the current issues is the maintenance of unsatisfactory budgetary practices.

Among the set objectives, only one remained unaccomplished. The enterprise has successfully built dashboards using non-financial indicators in order to measure and monitor the performance of the production processes and the performance of the customer service. Each separate profit center developed its own individual indicators in these two fields, although overall the preoccupations of the management controllers are the same.

In the case of organization X, the introduction of the dashboards was not accompanied by a transformation of the budgetary practices, and a transfer of roles would be highly required so that the profit centers will be able to implement actual navigation tools. The analysis of the context under which the project was carried out emphasizes the crucial role of two elements in the evolution of organization L's management control system, its strategy and its governing form.

## 5. Conclusions

As far as the design of management control systems is concerned, the results of the research-action reveal a strong interaction between scorecards and budgets. The successful implementation of a dashboard requires a series of changes in the budgetary practices. Indeed, the transfer of budgetary roles towards the dashboards should be achieved so that the latter can undertake the functions that are theoretically destined to them.

This is not the case, however, for organization X. Within this organization, the absence of a strategy and a clear governing form has impaired the evolution of the management control system and the role coherence between budgets and dashboards. The conclusions drawn up by this research are differentiated in what concerns organization X. In order to further

substantiate and complete these results, any future analysis must encompass a larger number of organizations in order to investigate the issue in other differing enterprise environments as well. This would allow for a clearer identification of the characteristics of organizational budgetary practices that possess actual navigation tools. Furthermore, this would allow for a comparison of the latter with the organizations that possess no such tools whatsoever.

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# Cost Benefit Analysis, Modern Vision of the Project Investment Approach

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## Abstract

*The cost benefit analysis represents a modern vision of the project investment approach which brings together the financial approach with the social approach. From the investor's point of view it's important to have a high probability of the transformation into reality of the investment possibilities which he selected and the obtaining of the anticipated return. From the company's point of view, the positive/negative effects which the investment might have on the community and the environment are analysed. In synthesis, the achievement of the analysis aims to motivate the social and economical impact of the investment project, considering the following both aspects: the necessity of the implementation of the investment, and the necessity of the financing, I considered useful the exemplification of the concepts described with the examples from projects which I had the honour to work.*

**Key words:** financial analysis, durability, economic analysis

**J.E.L. classification:** F30, G01

## 1. Introduction

The cost benefit analysis is an analytical instrument, used to estimate the socio-economic impact due to its implementation, throughout the monetary identification and quantification of the financial and non-financial effects of the investment. The impact must be assessed against predetermined objectives, the analysis being usually accomplished by taking into account all individuals affected by the action, directly or indirectly. The affecting is not favourable for everyone and , consequently, the applying of arrangements to cover losers are necessary. Currently, the principle Kaldor &

Hicks, according to which the world is getting better overall if those who earn total might compensate those who lose and stay with something extra, seems to be the satisfactory solution. In financial translation this means higher benefits costs in an amount to cover losses and ensure profitability required by the capital market. The economic and social reality provides a set of options from which the one with favorable difference between benefits and highest costs must be selected. In the process of determining the value, the difficulty of assessing the benefits and relative costs should not be neglected in any moment. In synthesis, the achieving of the analysis aims to motivate the socio-economical impact of the investment project, considering two directions[1]:

- *the necessity of the implementation of the investment* which is demonstrated by establishing its objectives and the compared analysis of the versions;
- *the necessity of the financing*, demonstrated by calculating the financial, the social and economic key indicators of performance.

Given the general foundation, the proposed **phases** [1] for the achievement of the cost-benefit analysis are the following: The identification of the investment and the defining of the objectives; The analysis of the options; The financial analysis; The economical analysis; The analysis of the sensitivity; The risk analysis. The mere enumeration of the phases emphasizes the realization that only a multi-criteria approach can ensure a high probability of success. Moreover, the unit considering of the economic and social elements justifies the government intervention in the form of subsidy. The crisis period which we hope we crossed it, further justifies this intervention and at the same time raises big question marks regarding the states that have demonstrated passivity.

## 2. The analysis of the options

The results of the feasibility studies are the basis for achieving the cost - benefit analysis." *Evidence that the selected project is the most suitable alternative among the options considered shall be provided*"[2]. The identification of options aims to find different alternatives for achieving the proposed objectives for the operational period of the project, which were technically established in the feasibility study. The Romanian methodology indicates the establishing of a „long list” and of a „short list” which shall analyse at least three versions. The procedure involves identifying in a first phase all investment opportunities from which the most viable are selected and are reported to the version "without investment". Selecting the optimal alternative may be based on a variety of criteria of which the most used is "the simple method of the lowest cost" which involves specific treatment before application:

- the analyse of the external possible impacts upon the company:
- if the expected impact of each of the alternatives considered can be demonstrated as being similar, then the alternative with the lowest cost will be retained as favourite option;
- if there are differences of the external impact of the alternatives, *the methodology of the lowest cost* will be adjusted in order to incorporate the externalities identified. The hierarchy of the alternatives is difficult in many cases because the monetization of external impact is approximate.

In the project „The modernization of the public lighting systems through the introduction of the unconventional lighting solar and aeolian system”, conducted by the author, four different technological variant of achievement involving different costs were identified. We considered relevant the comparison of the variants only if the following hypothesis are taken into consideration:

1. Determination of the optimal variant by comparing the project to similar classic projects;
2. Determination of the optimal variant considering the project integrated into the public lighting system in the city.

The compared costs were referred to the investment costs, maintenance costs and electrical energy costs, the last ones for a reference period of 20 years. The result indicated by both hypothesis was favorable to the same variant : Unconventional lighting system.

## 3. The financial analysis

From the company’s point of view, the financial performance of the project for its economic lifetime constitutes the decisive criterion for admission. A major influence can be induced also by a possible financing structure at a certain time. In the vision of the public authority, the decisive criterion to support financially a project is not solely the financial profitability. In principle, the financial analysis aims the financial durability and the sustainability at long term, as well as the optimal financial structure. Under the methodological aspect a series of phases are followed [3]:

- a) the estimation of revenues and costs for the project and their implications in terms of cash flow
- b) the defining of the financing system of the project and its financial profitability; this is done by taking into account the level of funding that may be obtained from any funding sources that may be mobilized.
- c) checking the predicted cash flow capacity in order to ensure the proper functioning of the project and the fulfilment of the investment's obligations and debt service.

*"The sustainability takes place where the net cumulative cash flow is positive for all the years of the analysis"* [3]

The focus of the analysis is the projection of the financial flows which are methodologically achieved , as follows:

- a) *Determination of the reference period* which represents the maximum number of years for which forecasts are made;
- b) *Estimating* the costs of investment and operational costs and revenues;
- c) Are only considered *the actual cash flows*; eliminating those calculated;
- d) *Establishing the financial update rate* of cash flow on an annual basis, to determine the time value of money;
- e) *Macroeconomic forecast* The macroeconomic values shall be taken from

the relevant statistical sources such as those drawn up for long-term by National Forecast Commission, National Institute of Statistics, National Bank of Romania, the European Central Bank, etc.;

f) *Tariffs, prices and their supportability* by the consumer;

g) Where appropriate, the application of the principle of "polluter pays" is taken into account;

h) *Calculation of the financial indicators*, the following are considered the most significant:

- Net actuarial value (VANF);
- Internal rate of profitability (RIRF);
- The cost/benefit ratio (C/B) or B/C;
- Cumulative cash flow (FNC).

*Possible financial structure* is essential at a time. An example from a real project, conducted by the author, reveals the following situation in a company from the field of recycling petroleum residues. The financing variants are:

- V1 with financing from its own resources and debt;

- V2 with financing from its own resources and and funding grants to the extent of 50 %.

The update used rate is 8%.

**Table No. 1 Indicators values**

Ind	V1	V2
VAN	negative	positive
RIRF	4,% < 8%	11,52% > 8%
C/B	1,34	0,94
FNC	negative	positive

**Source:** The author

The first variant emphasizes the profitability of the permanent capital and the second the contribution of subsidies to the profitability of its own capital throughout the achievement of the investment.

#### 4. The economic analysis

The reasons of the economic analysis are derived from the need to assess the investment contribution to the welfare of the society[4]. The economic reality emphasizes a series of aspects where the reasoning purely financial would not permit the implementation of some projects either because of insufficient funds possible to be mobilized, either because of an unsatisfactory operational profitability in case of total

financing of the investment. In general, the insufficiency of the investment funds is characteristic to local authorities, therefore only these should call upon the calculation of the social impact in order to justify obtaining subsidies. Regarding the private sector it should be noted the fact that the *social involvement* together with the *environment involvement* represents positive rating factors of companies by investors and focus of the marketing strategy. Consequently, even if a project is realized by the company from its own resources, the described reasons make absolutely necessary the development of the economic analysis.

#### 4.1. Methodology of the economic analysis

The purpose of this analysis, which is not methodologically different essentially from the financial one, is to demonstrate that in the selected variant the economic and social benefits of the project exceed the costs. The used indicators are:

- Net actuarial economic value(VNAE);
- Internal rate of economic profitability (RIRE);
- The cost/benefit ratio (C/B) or B/C.

The rate of social update (RAS) recommended by the European Commission is of 5,5 %, but the member states are free to suggest, to justify and to use other values, such as for example France 4%, Germany 3 %, England 3,5 %. The economic costs of the project are measured in „opportunity costs” as well as in „avoided costs”. Also, the *external benefits* resulting from the implementation of the project and which are not included in the financial analysis are taken into consideration.

*The starting point in the economic analysis* is the financial cash flow at which two types of corrections are applied in order to be transformed in economic cash flow: the fiscal correction and prices conversion [5]. *The fiscal corrections* are necessary for those elements of the financial prices which are not related to the contents of the opportunity costs such as the deduction of indirect or direct taxes and fees, of subsidies and simple transfers.

*The conversion of costs* from the market prices into accounting prices involves treating the costs by category by applying a



specific treatment for each case. The corrections can be calculated also on the bases of some standard conversion factors (fcs), the distortion of the price for flows of input and output. [6] Example for the calculation of the total cost of a construction : 30 % unqualified work force (fcs = 0,48), 40 % imported materials with the import tariff costs of 23 % and the selling fees of 10 % (fcs = 0,75), 20% local materials (fcs = 0,8), 10 % profits (fcs = 0).

Total standard conversion factor is:  $(0,3 \times 0,48) + (0,4 \times 0,75) + (0,2 \times 0,8) + (0,1 \times 0) = 0,60$  [3]

#### 4.2 Treatment of the externalities

The financial analysis is focused on the cash flow and generally ignores the benefits or the negative effects of the project on the company. The acute problem is that of externalization of the monetization which is a highly sensitive operation. It is used frequently for the monetization the method of payment availability which consists in the estimation of a monetary value throughout polls, questionnaires, statistical observable situation, the comparison with other observable behaviours on other similar markets, etc.

*The general recommendation is to limit the analysis of the externalities in the economic analysis to those for which a solid economic argument can be presented and for which a monetization or estimation is realistically possible.*[3] In synthesis, the externalities which were not included in the calculation of the conversion factors can be monetized, can be argued credibly and a monetization realistically applicable can be identified for these. The externalities which cannot be transformed in monetized form are only listed. In the project „The modernization of the public lighting systems through the introduction of the unconventional lighting solar and aeolian system”, named above, the following reasoning of treatment of the externalities is applied:

A) *Socio-economic effects transformed into monetary form*

1. *Quantity of greenhouse gases (GES) avoided by the reduction of the electricity consumption = 125.156 tones at a cost of 11 euro/tonne = 1.376.716 euro/year.*

The price was determined on the basis of European bourse quotations of the period of the carbon CLIMEX EUETS .

#### 2.Reduction of costs for electricity

$2.018.640 \text{ kw} \times 0,08 = 161.491 \text{ euro}$

The effect of the reduction in the economic and social plan is translated into the increasing use of the public lighting from 32% currently to 95%-100%. At the local budget level the cost reduction has the effect of including the total annual consumption for public lighting in amounts which may be allocated to this purpose (125.000 euro).

B) *Socio-economic effects which were not transformed in monetary form*

- The comfort given by lighting the whole city
- Urban appearance
- The increase of the citizens safety
- Reducing daily crime that is growing in the city
- Cost reduction for combating crime
- The benefits of the creation of new jobs (20 in the execution phase and 2 in the operational phase) in an area where the number of unemployed persons registered with allowances and in search of a job after the expiry of the allowance is of 5,17%. To it is added another percentage 8,83% of people receiving social assistance and receiving the family allowance supplements.

Even if a part of these effects can be quantified monetary, we did not consider necessary such an approach because the *the externalities monetized sufficiently illustrates the economic and social reliability of the project.*

#### 4.3 The economic analysis, the criterion for decision of granting non-reimbursable funds

The economic decision criterion is similar with the one from key indicators of financial performance. If  $VANE > 0$ ,  $RIRE > RAS$  și  $B/C > 1$  means that the project has beneficial effects for society. The start point in the calculation of the economic indicators is constituted by the economic cash flow. But, the granting of funds and determining the needed amount to be financed are conditioned by the results of both types of analysis.

**Table No. 2 Indicator values**

Ind	Financial analysis	Economic analysis
VAN	- 5.644.205	+ 10.941.570
RIR	- 19,03% < 5%	29,94% > 5,5%
C/B	2,70 > 1	0,96 < 1
FNC	Positive during reference period	Positive every year

**Source:** The author

From the table results that the financial indicators are rejecting the project while the economic analysis suggests its implementation because it is beneficial for the community. The next step is the necessary amount to be finances which is equal to the subsidy that must be granted so as the financial indicators to accept the project.

## 5. The risk and sensitivity analysis

The object of the risk and sensitivity analysis is *to evaluate the performance of profitability indicators of the project*. In this respect, the first part of the analyses (the sensitivity analysis) follows the identificatin of the critical variables and their potential impact on the modification of the profitability indicators, the second part (the risk analysis) aims to estimate the probabilities of this modifications which occurred, the results of this analysis is expressed in an estimated average and standard deviation from the mentioned indicators. *The relevant performance indicators which shall be considered for the risk and sensitivity analysis are RRF and VNAF for the financial analysis, RRE and VNAE for the economic analysis.*

The risk and sensitivity analysis is achieved in three phases:

1. *Identification of the critical variables:* determining those variables which are considered critical for the performance indicators of the project. This is done by percent change of +/- 1% of a set of variables of the project and then calculate the value of profitability indicators. *Any variable of the project for which the variation with 1% will produce a change of more than 5 % in the*

*basic amount of VNAF or VNAE will be considered to be a critical variable.*

2. *The calculation of switching values of variables critical:* taking into account the results obtained in the first phase, any variable for which a variation of 1% will produce a change of more than 5% in the basic amount of the VNAF or VNAE will be considered as a critical variable. For the critical variables the calculation of the so-called switching value is required, which represents the variation (in percentage) of the critical variable that makes that the analysed indicator performance (VNAF or VNAE) to pass through zero.

3. *The estimation of the probability distribution for the profitability indicators."* This phase involves a qualitative assessment of the relevant factors which may affect the values of the critical variable, as well as the measures already included in the project in order to reduce the impact of such factors" [1]. As a result, there are two options for quantifying the safety level of the values calculated for the profitability indicators :

✓ If there is reasonable information for the purpose of determining the distribution of the probability of critical variables, then it is possible to use the statistical method Monte Carlo or similar (genetic algorithms, neuronal networks, etc.) which simultaneously assigns random values to the critical variables (in the distribution expected) for a number or for repetitions large enough to obtain a probability of distribution for each of the profitability indicators. *Thus each profitability indicator will be expressed as an average and standard deviation of the variables obtained after all repetitions.* [1]

✓ If there is no reasonable information to determine the distribution of the probability of critical variables, then the risk analysis will be achieved *through the optimistic and the pessimistic scenario definition that will include all the critical variables and the calculation of two extreme values for profitability indicators on the basis of the two scenarios.*

In the case of the project of "introducing the unconventional lighting systems" mentioned above, the analysis of variables was done by changing the percentage of 1% of the specific indicators of the financial and economic analysis.

**Table No. 3. Indicators values**

Variation update rate	Variation VANF	Variation RIRF
3%	3%	0,24%
4%	2,7%	0,23%
<b>5%</b>	<b>0</b>	<b>0</b>
6%	4,2%	0,32%
7%	3,9%	0,31%

**Source :** The autor

*There were not identified critical variable, which for a percentage of 1% of parametres modification, to determine a modification of more then 5% from tha basic value of VNAF and VNAE and therefore the calculation of the switching values is not necessary. It should be noted, however, a high sensitivity to the expression of risk factors resulting from the VANF variation in the range of 2.7%-4.2%. It is necessary to pay special attention to risk management, mainly to the local authority's capacity to ensure its contribution to the co-financing.*

*The risks can be defined as probabilities of producing losses in the project. To reduce/eliminate the risks, it is proceeded methodologically to identify risks on the basis of the sources of risk, their evaluation and management during the implementation and execution of the project.*

The risk analysis requires the identification of reasonable information for determining the distribution of the probability of critical variables. In the event that if there is no possibility to obtain reasonable information, the scenarios method is usually practiced, creating an optimistic variant and a pessimistic one.

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- [1] \*\*\* National manual for the cost-benefit analysis
- [2] \*\*\* Work Document nr. 4 of the European Commission
- [3] \*\*\* Guide ISPA for the cost-benefit analysis
- [4] \*\*\* Government Decision nr. 28/2008 regarding the approval of the framework content of technical and economic documentation relating to public
- [5] [www.projectmanagement.org](http://www.projectmanagement.org) ,
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# The IFRS9 Standard: Assessment of the Impacts on the European Banking Industry

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## Abstract

Since the 2008 World Financial Crisis, the banking industry went through an ongoing transformation process, accelerated by increasing supervision and regulation, especially in the EU. The latest innovation is the IASB IFRS9 Standard, which should be applied starting from 2018 (subject to European amendment, yet to come). The aim of this article is to assess the impacts of the IFRS9 Standard on the European banking industry.

Section 1 draws the general landscape and explains the environment surrounding the IFRS9 Standard's birth.

Section 2 studies the main steps of the IFRS9 Standard, and its implications, both in terms of classification and measurement as well as in credit risk impairment.

Section 3 focuses on implementation challenges posed by the Standard.

Section 4 considers the costs and benefits of the norm implementation, both at the credit institution level and for the European banking industry as a whole.

Section 5 concludes.

**Key Words:** regulation, supervision, IFRS9, measurement, credit risk

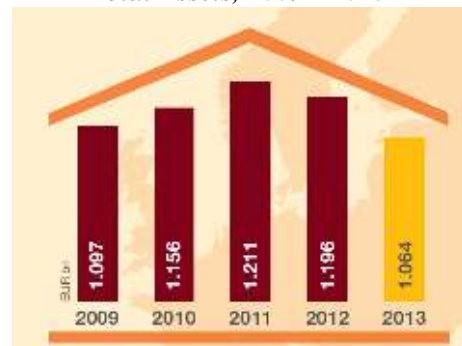
**JEL Classification:** G01, G12, G21, G18, M41,

## Introduction

Seven years after the 2008 Financial Crisis, the European banking system has significantly healed: all banks have regained access to the debt markets; funding strains have eased, reducing their reliance on European Central Bank (ECB) liquidity; but banks still have obstacles to overcome, such as more business perspectives – because of

subdued credit demand and historically low interest rates – as well as new regulatory and legal requirements yet to come [1].

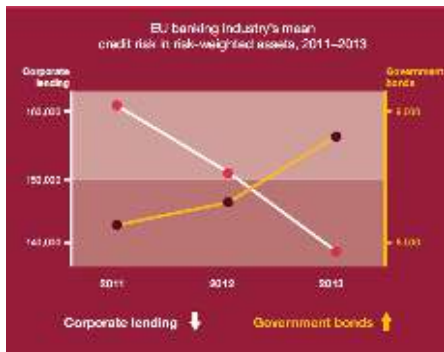
Graphic 1: European Credit Institutions  
Total Assets, 2009 - 2013



Source: PWC Report, "That shrinking feeling: Tracing the changing shape of the European banking industry", page 7, February 2015

After the financial crisis in 2008, the banking industry in the developed countries had to proceed to a painful restructuring process. Indeed, banks reduced total assets and non core business, increased their deposit collects as well as liquidity positions. They became intensive buyers of European/national government bonds, at the expense of corporate financing, more capital intensive in the Basel III view. Credit risk also significantly decreased, as analyzed in the following graphic:

Graphic 2: EU banking industry's mean credit risk in risk-weighted assets, 2011–2013



Source : PWC Report, " That shrinking feeling: Tracing the changing shape of the European banking industry", page 8, February 2015

All these transformation efforts were made with the objective to adapt to the new regulation and enforced supervision.

In the European Union, the supervision took the form of the Single Supervisory Mechanism, which aim is to monitor the financial stability of banks in its perimeter, starting from March 2014. Euro Zone states are obliged to participate, while Member states of the European Union outside the Euro Zone can voluntarily participate. The ECB is endowed with final supervisory authority while national supervisors are in a supporting role.

The latest innovation comes from the IFRS9 Standard, which transforms international accounting standards' view. The objective of this article is to depict this standard and study the main implications for the banking industry, completing this way the general banking industry landscape.

## Section 1: a background review

Section one draws a picture on the European banking landscape and the way in which it was transformed during these last few years, as a consequence of the European reporting harmonization and the 2008 World Financial crisis.

In 2006, the CEBS (Committee of European Banking Supervisors), started designing the new European Reporting frameworks, FINREP and COREP, with the aim of achieving harmonized supervisory reporting standards across the EU, by increasing comparability of financial information reported to different supervisors within the EU, increase the cost-effectiveness of the supervision across the EU and reduce

reporting burden on cross border credit institutions.

Shortly after, the World Financial Crisis burst, bringing with it banking bankruptcies, worldwide recession and a questioning on previous banking models and practices.

Regulation reinforced, with Basel II.5, Basel III on capital requirements and liquidity ratios for banks, which generated important restructuring within credit institutions for a couple of years. EBA (European Banking Authority), the institution that replaced the CEBS, integrated all these regulation requirements and went further, requesting even more detailed data and documentation, in the new FINREP and COREP reporting, which were firstly produced by European banks in March 2014. Credit institutions faced multiple challenges in implementing these reports, starting with organizational difficulties posed by the historically separated Divisions such as Risk and Finance, continuing with data availability and data quality across different entities, multiple sourcing information and data warehouses, the capacity of producing these complex reports within the initial deadlines and updating them on a regular, quarterly basis [2].

Shortly after the achievement of these significant necessary adjustments, the IASB came into force with its new IFRS9 Standard, released in its final version on July 24<sup>th</sup> 2014. Indeed, during the World Financial Crisis of 2008 and shortly after, the IAS39 International Accounting Standard on Financial Instruments Classification and Measurement was strongly criticized, mainly because of its strong complexity, the lack of transparency in the classification rules, high volatility in the financial statements and the impossibility to incorporate market and credit events expectations in the credit risk impairment process (only « incurred » credit losses were booked). IFRS9 standard is aimed at addressing these criticisms and enable transparency, anticipation and simplification [3].

## Section2. IFRS9 Standard and its main reforms

The final version of IFRS9 standard was released in July 2014, after more than six years of discussions. Replacing the existent

IAS39, IFRS9 is structured in three phases [4]:

1. Classification and measurement, based on the combination of two criteria, the cash characteristics of the instrument and the business model in which they are managed.
2. Impairment, the main revolution, which replaces the "incurred loss" model with an "expected loss", prospective model.
3. Hedge accounting (micro-hedging). This aspect will not be assessed in this article, the micro hedging being an option that credit institutions can adopt, but is not mandatory.

The standard's perimeter consists of consolidated entities of banking institutions. The standard has still to be amended by the European Union in order to be applicable by the European banking industry. The mandatory application is requested by January 2018, early application being possible. No comparative basis is demanded [5]. Insurance activities are not yet included in the scope, which poses significant disclosure challenges for credit institutions having important insurance activities, consolidated in their Group Financial Statements.

#### *Classification of Financial Assets and Liabilities*

IFRS9 standard sets three possible classification categories for financial assets, measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). Consequently, the current IAS categories Held to maturity (HTM), loans and receivables, Available for Sale (AFS) disappear.

A financial instrument, if it respects the SPPI criterion, will be classified either at amortized cost or at FVOCI, according to its business model. If the business model is solely to collect contractual cash-flows, the asset will be classified at amortized cost, otherwise, if the business model is to collect cash flows as well as sell the assets, the asset will be accordingly classified at FVOCI. Assets not respecting the SPPI criterion or having a business model exclusively aimed at selling assets are to be classified at FVTPL [6].

The SPPI criterion is a new concept introduced by the Standard, i.e. the cash-

flows collected represent solely payment of principal and interest. This definition applied to rather basic contracts. The point will be developed in the next section.

The classification of the financial assets is made at their origination. Only a business model change should yield reclassification. A change in the SPPI/non SPPI criterion should maintain the initial classification, except for cases where contractual clauses have been significantly revised. If this is the case, it is considered to be a new initiated contract; therefore, full analysis shall be conducted to identify the two classification criteria and the subsequent IFRS9 classification.

Some options are made possible by the Standard, such as to initially and irrevocably designate an asset at FVTPL in case of an accounting mismatch [6].

Derivatives are from now on analyzed as a whole, together with the host contract.

#### *Impairment*

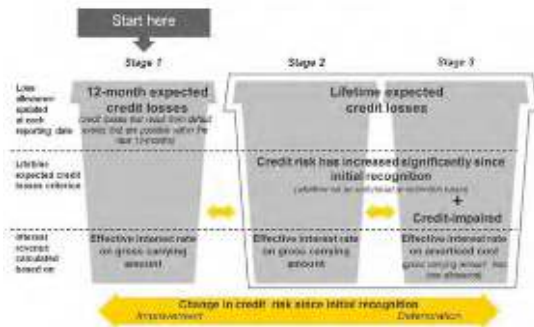
The main innovation brought by the Standard consists of the new impairment model, which fundamentally changes the risk assessment process. The latest is reviewed in order to incorporate not only the incurred loss, but especially the expected loss, by taking into account all available forecast information, such as macroeconomic environment, external data – ratings and credit spreads etc.

The impairment will be applied to all financial assets classified at amortized cost or FVOCI, including loans, debt securities, lease and loan receivables, financial guarantees and loan commitments issued [6].

The impairment model requests the assets to be allocated into three categories, or "buckets"/"stages", according to the estimated risk level: bucket 1 – healthy assets, bucket two, slightly deteriorated risk assets and bucket 3 impaired assets. At origination, supposing the asset is not already credit impaired, it is classified in stage 1 and applied a 12 months expected credit loss, using the Effective interest rate method on the gross carrying amount. Following a dynamic credit risk survey, according to the risk evolution compared to the origination point, if the credit risk of the financial assets had suffered a "significant increase" since initial recognition, it will be assigned with a lifetime expected loss, and classified either in stage 2 or in stage 3, function of the "credit-

impairment". The assigned credit loss in stage 3 is even larger than in stage 2, as the effective interest rate is applied on net carrying amount (gross carrying amount less loss allowances).

Graphic 3: General model for impairment process



Source: E&Y, Impairment of financial instruments under IFRS9, [7]

While Phase 1 should have a limited impact on banks' capital and financial statements, as no massive change in classification is expected by the Profession (though other challenges arise, as it will be studied in the next section), the impairment process will significantly affect the banking industry. Firstly, an important first application impact should be observed in 2018, as the scope of impairment will have significantly increased and will be based on an expected credit loss model: even healthy assets will be ascribed with a depreciation amount, based on internal statistical models that will take into account a 12 months expected loss. Secondly, IFRS9 impairment rules, though they will probably enable financial statements reflecting more accurately the economic shape of the business, it will also bring with it more volatility, because of external data used in the benchmark models, as well of moves from one bucket to another (any transfer from or towards bucket 1 – see the previous graphic for more insight).

As for the implementation challenges, they will be assessed in the following section.

### Section3. Implementation challenges raised by the Standard

As mentioned in the previous section, the classification and measurement phase of the

IFRS9 Standard should not fundamentally change the existent valuation system.

However, implementation processes, in order to be IFRS9 compliant by January 1<sup>st</sup> 2018, are far from being light. The new classification system will need significant update of the consolidation software and a new presentation of the chart of accounts and of the consolidated financial statements reports, as well as important adaptation from upstream and downstream systems. The downstream impacts include notably the European Supervision Reports such as FINREP and COREP, which should also be revised following the change in the accounting standards, even if the nature of the adaptations requested have not been released yet.

This significant process and IT review will necessitate important budget and enforced organization and cooperation within credit institutions, considering that the standard will impact all consolidating entities consolidated at a Group level.

As for the new impairment for credit risk requested by Phase 2, it will necessitate important IT adapting in order to develop (if not already existent) a powerful unique database, at a contract level, capable of isolating the impairment basis (amortized cost and FVOCI contracts), allocate one by one contracts into the appropriate bucket according to internal risk models, to survey risk indicators and credit risk evolution from the contracts' origination point in order to have a dynamic bucket allocation and provision calculus and, finally, book impairment in the local and consolidated accounting ledgers and subsequently supply consolidated financial statements reports and disclosures with information on portfolio and credit risk evolution, within the three buckets.

All these transformation requires increased coordination between Finance and Risk Departments (which historically work separately and have different perspectives on business) in order to meet the IFRS9 standard by 2018. If 2018 seems far, taking into account all the transformation process and the subsequent FINREP and COREP evolution, coping with IFRS9 standard by January 2018 is a rather ambitious project.

### Section4. Costs and benefits induced by the Standard.



As studied in the previous section, adopting the standard will be costly and painful.

With respect to the benefits of this norm, it is not certain today that the new standard will have positive effects, compared to its initial objectives: transparency, anticipation and simplification.

Transparency will probably be reinforced, in the sense that documentation requirements will be increased. However, convergence has not yet been reached, nor at the European or at an international level.

Anticipation will be probably achieved; on the other hand, it should come with increased volatility, as explained in the previous section.

As for the simplification objective, it still has to be proved: the new SPPI criterion and impairment model are highly complex and, while simple conceptually, they pose important challenges in their application: what is significant risk deterioration, what elements to include in the forecast tests, what is solely payment of principal and interest and what elements so include in the benchmark tests for the SPPI/non SPPI criteria? The Standard does not provide answers to these questions, but instead lets them to be dealt by the Profession (banking industry, auditors, and regulators). However, applying a single impairment model (which is not the case today with IAS39), should "facilitate comparability for assets with similar economic characteristics and reduce a significant source of complexity for both users and preparers of financial statements compared with IAS39" [6]

Is the IFRS9 standard better than the existing IAS39 and will it be make banks more resilient to future financial crisis? Not for sure. It should though have one undeniable benefit, at individual and, by summing up, at the industry level : providing European Credit institutions with robust credit risk evaluation tools and information systems, which was not always the case, especially in Groups that developed rapidly in the last twenty thirty years.

## Conclusion

It would be interesting to address the IFRS9 Standard in a more global view and

the degree of convergence that has been reached with other Standards and Regulations.

To begin with, partial convergence is observed with Basel III, as the IFRS9 finally adopts an expected credit loss model. The convergence is only partial as the calculus formula of expected loss is slightly different and that Basel III only demands 12 months calculation of expected loss, while IFRS9 distinguishes between 12 months and lifetime expected credit loss.

Secondly, given the lack of convergence of IFRS with US GAAP, the aim of having a uniform, fare playground for all internationally based credit institutions is still utopist.

Looking forward, when analyzing competition in the banking industry, it is useful to make the following remark: in the US, capital markets are more developed, whereas in Europe, it is the banking industry that finances the economy (bank assets in the US stand for 66% of the GDP, whereas in Europe bank assets represent 300% of the European GDP); Basel III, while adopted completely in Europe, is only partially applied in the United States (certain U.S. banking organizations and other systemically important financial institutions). Therefore, European credit institutions deal with greater capital and liquidity requests, their profitability is mechanically lower, and the potential negative impact on financing the real economy greater, when considering their role in financing European economy. If European banks succeed for the moment to meet Basel III capital request, the regulatory trend is to reinforcement, so it is very probable that the capital ratios requests be even higher in the future. And some other regulation is waiting to come into scene: LTRO (2018), TLAC (Total Loss Absorbing Capacity) etc.

There is no doubt that enforced supervision is needed in order to prevent crisis such as the 2008 one, however, Europe should not lose sight of competition issues, especially concerning US banking competitors.

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## TIP TAXATION – Necessity or Inconvenience?

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### Abstract

*Tips have been, lately, the subject of broad discussions and debates in political, economic and commercial environments.*

*The present paper intends underline several aspects related to gratuities. First, we will try to highlight the advantages and disadvantages of tips regulation. Then we will illustrate the accounting and tax treatments corresponding to each of the two policies business owners can choose from, with respect to the recipient of the tips: the economic operator or the employees. We will also review the penalties that can be expected for non-compliance with regulations on charging the tip on the bill. Furthermore, we will illustrate the approach other countries have towards tipping.*

*We trust that you the novelty of this subject will intrigue you and stir you interest for reading further.*

**Key words:** tip, receipt, the advantages of tip regulation, disadvantages of tip taxation, contraventions.

J.E.L Classification: M 41

### 1. Introduction

The regulation of tipping comes to fill the existing void in the tax legislation in Romania.

The Government decided to tax the tip after the Anti-fraud Department controls revealed that there were various sums of money, unaccounted for, in the cash drawers; and the controlled entities explained that the money came from tipping, for which there were no legal provisions.

Through the Emergency Ordinance no.8/2015 (OUG 8/2015), published in the

Official Gazette of Tuesday, 28 April, the Government has imposed the tipping tax and the registering of the tip on the receipt, on a separate line. The regulations apply as of May 8<sup>th</sup> 2015.

**Tips or gratuities** are defined as any sum money offered voluntarily by the customer, over and above the actual amount due for services rendered or for goods sold by the economic operators that use cash registers; tips also take the form of the change clients refuse and voluntarily leave on the countertop, for the shop assistant. [1]

The government ordinance prohibits the economic operators to condition, in any way, the delivery of goods or services on receiving a tip. Gratuities must appear as separate line item at the end of bill. During the periods the cash registers are out of order, quittances will be issued and they will be entered in the **Special Register**, where every operation performed during these intervals will be registered.

**The recipient** of gratuities will be established by an Internal Regulation Policy: it will either remain at the disposal of the economic operators, or be distributed to the employees, the tax accounting treatment being different in each of the two circumstances.

### 2. Tip regulation – advantages and disadvantages

We intend to answer the following question: **was it necessary to establish a legal basis for this type of income?**

All incomes have to be taxed, irrespective of their nature.

The OUG 8/2015 has submitted to taxation only the extra amount of money received by businesses that use a cash register. What about the postman who

receives 5 lei from the pensioners as they collect their pension? Shouldn't he give a receipt and pay taxes? What kind of receipt does the doctor give for the 500 euros he receives for a surgery, at times even before the surgery, because the patient wants to make sure the surgery is successful? No one makes them pay any taxes for this unreported income! And the list of fields of activity with untaxed additional income can go on.

Tippling regulation is considered by Alin Chițu – Tax Partner at Tuca Zbarcea & Asociații Tax – a bombastic measure, meant, first of all, to defuse the situations in which the activity of some businesses was suspended because of small differences between the cash in cash register drawers and the amount registered on the receipts (differences generated most of the times by gratuities). [2]

There were instances where for a discrepancy of 1 leu extra in the cash drawer, the activity of the economic operator was suspended. The structures of control of the Financial Administration fulfilled their duty with the utmost diligence: from closing a pastry shop for 5 lei extra in the cash drawer, confiscating the nettles of an old lady selling them on the street, to the suspension of activity for major frauds.

The institutionalization of tipping makes sellers issue a double number of receipts: one for the sold goods or services and one for the tip.

The risk that employees do not declare the amount of money they receive as a gratuity has not been eliminated. This is, however, the responsibility of the employees and not of the economic operator. This is the very reason why the personal money register has been reintroduced: at the beginning of the work program, employees must declare the amount of money they have on them. The owner has no way of controlling and verifying if information is accurate. Moreover, the life of business owners will be complicated by this new register, getting tangled in a never ending paperwork.

Printing the tip on the same receipt as the sold goods or rendered services would transform the tip into a tax, making it mandatory. This was not the desired outcome. The measures just sought a way to tax this extra income.

Will we witness an income decrease among restaurants, hairdresser's, cab drivers or any other fields of activities that generally involve tipping? Will employees avoid fields

in which tipping is a customary practice? In other words, will we be confronted with a shift on the labor market?

Business owners will have to motivate their employees through an attractive salary package, including providing the employee benefits in the form of private insurance [3] if they choose to keep the gratuities. Quite often, tip earnings exceed the actual monthly salary; employees accept being hired for minimum wage salary, because they know that the tip income will surpass the salary and that, when they draw the line at the end of the month, they will have satisfying revenue. Will Romanians choose to accept 10 taxed lei or 7 unreported lei? Practice will answer to this question.

If at the corner store people leave 10, 20 bani on the counter to avoid loading their pockets with change or in case they don't have the exact change the next time, how will the institutionalization of tipping work here? Will the shop assistants be compelled to charge those 10, 20 bani on the receipt or force the change down the customer's pocket?

It will be awkward for the waiter to ask the customer sitting at the restaurant table: "Sir, will you leave a tip? How much? I need to know this so I can issue the receipt." Or will the waiter have his answer once the check is paid and then do the math, issue yet another receipt for the extra amount and run after the customers to give it to them?

The financial and taxing implications of tipping can be synthesized as follows:

*Table 1. Tip Taxation*

<b>Elements</b>	<b>Tip retained by the employer</b>	<b>Tip distributed to employees</b>
It represents income	YES	YES
It represent a expense	NO	YES
It is subject to turnover tax / income tax	YES	NO
It is subject to VAT	YES	NO
Employees pay income tax	NO	YES
Social contributions are paid	NO	NO

Source: Own analysis

### 3. The tip retained by the economic operators.

In the version where the money remains at the economic operators' disposal, the tip constitutes a taxable income, in what both turnover tax / income tax and the VAT are concerned.

For instance, on 15 May 2015, the Money Never Sleeps entity has cashed in 545.6 lei, the the equivalent of a meal served by a client. The amount splits into:

- 400 lei, the meal, without VAT;
- 96 lei VAT corresponding to the meal;
- 40 lei tip without VAT;
- 9.6 lei VAT corresponding to the tip.

The accounting treatment of the transaction above is:

Meal: [4]			
496 lei	5311	=	%
			496 lei
	Cash		7015
	in hand		400 lei
	in lei		
			Sales of
			finished
			goods
			4427
			96 lei
			Output VAT
Tip:			
49,6 lei	5311	=	%
			49,6 lei
	Cash		7588
	in hand		40 lei
	in lei		
			Other
			operating
			revenues
			4427
			9,6 lei
			Output VAT

Depending on the fiscal regime of the entity, the economic operator must pay 16% of 40 lei if they pay corporate tax (tax on profit) and 3% of 40 lei if they pay income tax.

### 4. Tips distributed to employees

When the tip is assigned to employees, it does not represent payment for delivered goods or services; therefore, it is **exempt from VAT** and is registered in accounting as **income** when it is cashed in and as an **expense** when it is distributed to the employee. Moreover, **no social contributions** are imputed for gratuities; only **income taxes** are paid.

We go back to the previous example, with

the sole difference that the economic entity distributes the amounts originated from tipping to the employees.

Meal:			
496 lei	5311	=	%
			496 lei
	Cash		7015
	in hand		400 lei
	in lei		
			Sales of
			finished
			goods
			4427
			96 lei
			Output VAT
Tip:			
49,6 lei	5311	=	%
			7588
	Cash		49,6 lei
	in hand		
	in lei		
			Other
			operating
			revenues
			7588
			49,6 lei
			Benefits of the employees at the end of the month [5]:
49,6 lei	641	=	%
			421
			49,6 lei
			Salaries
			expenses
			Employees-
			salaries
			payable
			Deducting income tax from employees:
			[5]
8 lei	421	=	%
			444
			8 lei
			Employees-
			salaries
			payable
			Tax on
			salaries
			Payment of net amounts to employees:
41,6 lei	421	=	%
			5311
			41,6 lei
			Employees-
			salaries
			payable
			Cash in
			hand in
			lei

### 5. Contraventions generated by omitting to issue receipts for tips.

Each of the following situations represent contraventions: not issuing a receipt for all the delivered goods or rendered services, except for instances where the cash register is out of order; issuing receipts for less than the selling price of the delivered goods or the rendered services; not respecting the obligation to draw up documents for the amounts that enter the unit selling goods or rendering services, other than those for which the receipt was issued or those mentioned on the special register; not having supporting documents for the amounts drawn from the unit selling goods or rendering services, other than those used to give change to the client.

Penalties differ depending on two

variables: the percentage of the total value of the delivered goods or services rendered and the difference between the actual amount existing in the cash drawer and the amount that should be there, according to the supporting documents. The range of penalties goes from **warnings**, for percentages equal to or less than 3% and a difference equal to or smaller than 300 lei to fines up to 27,500 lei and suspension of activity for 30 days for the second offense over the last 24 months, for a percentage greater than 3% and a difference exceeding 1,000 lei.

## 6. Tipping Etiquette Abroad.

Whereas in some countries gratuities are seen as a customary practice, there are countries in which tips are considered an insult or even a criminal offence. **In some countries it is impolite not to leave a tip; in others, leaving a tip is regarded as an insult.** We take into consideration tips given in the tourism field, abroad. Some countries have established regulations concerning the extra money that exceeds the price of what was served, adding a fixed sum on the bill.

In countries from Europe, North America and South America, it is customary to leave a tip of about 10 to 15% of the bill, at times even when gratuities are already included in the bill. On the other hand, in most Asian countries, such as Japan, South Korea, Singapore or Thailand nobody expects a tip.

In Japan not only is a tip not mandatory, but it is even considered an insult.

## 7. Conclusions

Practice has shown us that in many circumstances, tipping can work as an international password. If you want to befriend the waiter, the cab driver, the receptionist, etc., give them a tip and you will see how many things will instantly become easier and more comfortable. [6]

The new emergency ordinance has created panic amongst business owners, not necessarily because of the extra tax being imposed on them, but mainly because of the way it this tax is evaluated and collected.

Hopefully, the chaos brought about by the implementation of OUG 8/2015 will be quickly dispersed and that the benefits of this measure will outclass the implementation costs.

In order to implement tip taxation, business owners have to bring modifications

to their software, which will generate additional costs. Will the software companies cope with these modifications in due time?[7]

In our opinion, this measure will bring only insignificant amounts to the budget, and the activity of business owners will be overturned, suffocated by even more paperwork and controls. Moreover, the professional categories that received gratuities until now will continue to cash in tips, without charging them on the bill, like they used to.

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## Incursion in the Depreciation Testing of the Non – Cash – Generating Assets Belonging to the Public Sector

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### Abstract

*The differentially applied practices for the public sector versus to the private one regarding the reversible value depreciation of assets led us to the analysis of the solutions suggested by ISPAS 21 “The depreciation of non-cash generating assets”. In the following, we will go through two important moments from the depreciation process: **identifying the depreciated assets and measuring the use value.***

**Keywords:** recoverable service amount, impairment loss, value in use, non-cash-generating asset.

**JEL Classification:** M41

### 1. Introduction

The concept of value depreciation [1] was developed by the International Accounting Standards Board for the Public Sector within the International Federation of Accountants (IFAC) especially for ensuring a better and trustworthy reflection of an asset’s value, on balance sheet day, in the financial situations of an entity. The ISPAS 21 Standard “The depreciation of non-cash-generating assets” prescribes all the procedures applicable for a public entity’s non-cash-generating assets in order to ensure the recognition of possible depreciation losses. The rigorous approach of the standards regarding value depreciation of assets that belong to the public sector show the fact that the regulation authorities have become aware that this has been a neglected field in the financial reference. Therefore, on balance sheet day, according to the IPSAS [2] provisions, the depreciation test is applied by comparing the accounting value of the fixed asset with the fair value and the service value. If the highest value of these two is lower than the accounting value, depreciation

for the difference is acknowledged.

### 2. Identifying an asset that can be depreciated

Applying the depreciation test is not made randomly and it does not apply to all the assets of an entity. Generally, the standard requires that the entity makes depreciation tests when *there are signs that an asset could be depreciated*. We note that this it is not a mandatory request for the possible depreciations to be calculated for all the assets on each balance sheet date, which would require a highly laborious task for many public entities. It is rather the case of the *existence of certain circumstances which could indicate a higher depreciation risk which should be assessed*. Therefore, on balance sheet day, those assets which, according to the considered conditions can be depreciated, should be identified. The existence of conditions/clues, does not necessarily involve a depreciation, but still, the public entity will have to analyse the recoverable value of the respective assets. Since the depreciation test is a complex process and it is particularly expensive for some entities (there are difficulties connected to the possibility of determining the market value of the assets, of the depreciated replacement cost, respectively of the rehabilitation cost; likewise, for determining the rehabilitation cost which requires the reconstitution of the services potential of the asset subjected to the analysis at its level before depreciation, it is necessary to adopt a few hypothesis and draw some suppositions that are not always easy to support) in measuring the recoverable value, the *principle of materiality* will be applied. If in the previous exercises for the asset that was subjected to analysis it was established a *recoverable value that is significantly bigger than the net accounting value, and for the*

*time interval the clues show that the asset has lost some of its value do not constitute in events that would induce the decrease of this difference, then it is not necessary to re-estimate the recoverable value.*

In identifying the depreciated assets the standard requires a potential depreciation clue set and it suggests that these represent a minimum factor list that will be taken into account. The entity could identify other depreciation indicators, besides the ones mentioned by the standard, since their list is not exhaustive. At a first analysis, the signs will be taken into account, the depreciation criteria, grouped in ***external and internal criteria***.

The external criteria/clues are mainly the result of a rupture in the technological environment with negative effects on the service use of the assets; of the decrease of the use level, as a consequence of the appearance on the market of new assets, which are much more performant; of the significant long term changes within the legislative environment/in the governmental policy with adverse effects on the entity. The internal clues are generated by the wear, respectively the degradation of the services level expected to be supplied by the asset; the changes that appear during the use mode, respectively a long term decrease of request for the assets' services, with negative effects on the entity etc. We are talking about all the internal information that leads to the idea that, in the future, the assets' performance will decrease. From the two categories of sources an important percentage and a specific care is required by the external criteria which are exterior to the entity and cannot be influenced by the management.

### **3. External and internal criteria examples for the depreciation of a non – cash – generating asset**

In identifying the non-cash-generating assets which could be depreciated, the following [3] external sources have a significant impact:

a) *“stopping or trying to stop the demand or the need for the services provided by the asset”*

*In this case a decrease/stop of the demand for the services provided by a*

***certain asset was identified, although its potential did not suffer any changes.***

✓ The local council of Beta region decides to close the local school, as a consequence of the lack of request for the scholar services; this resides from relocating the *sași* population – 90% of the village's total inhabitants. Since the demographic tendency which affects the demand for the scholar services is not expected to be reversed in the foreseeable future, we can consider that the asset is depreciated, although its services potential has not been affected.

✓ A high school cafeteria that was designed for 700 students is usually only used by 90 students – it is impossible to shut it down because 80% of the requesters are accommodated at the boarding school, which makes it improbable to send the students to another school cafeteria to eat. On opening the cafeteria the demand was for 650 students – the entity would have built a much smaller building if an estimation for a future significant decrease in request would have been done. The public institution establishes that the demand has almost stopped and the recoverable value of the cafeteria's service should be compared to its accounting value.

✓ The railway section X administrated by the CFR Regional Y is shut down based on the entity's management decision as a consequence of the lack of permanent clients – the population prefers to use a bus service that is cheaper. Although the asset that is subjected to analysis maintains the same service potential, the lack of request indicated the existence of depreciation of the railway section, which requires the comparison between the recoverable value and its accounting values.

✓ As a consequence of the decrease of the children's number in the social protection sector from Alfa region – which is a consequence of rethinking the social protection system for minors, the local centre is expected to be shut down. For the centre's assets – for example its buildings, it is admitted the existence of depreciation loss clues.

b) *“long term changes with an adverse effect on the entity will take place in the technologic, legislative or governmental political environment in which the entity operates”*



***An asset's services utility/potential can be decreased if the technology has advanced, producing more efficient alternatives, respectively as a result of the changes in legislation or regulations.***

✓ In hospital X an equipment for medical diagnosis was acquired 5 years ago and is used ever more rarely as a consequence of a similar equipment being donated, which has a more advanced technology, ensuring more efficient services. The quick development of technology in this field decreases the service use of the old equipment, thus the entity has to admit its depreciation loss.

✓ The financing allotted from the local budget for a subordinated education institution is insufficient for ensuring the update of computer programs for students' training. Since the institution does not have the necessary personnel for maintenance the programs and it can't bear the cost required by the external provider, it is necessary to re-estimate the recoverable value of the depreciated computer programs.

✓ As a result of legislation changes regarding construction materials, a building that belongs to a cultural institution cannot keep being used for artistic activities. The changes that occurred in the legislative regulations decrease the services potential of the asset that is being analysed, thus it is necessary to admit that the building has had a depreciation loss.

✓ The public entity X owns two vehicles in patrimony which do not follow the new standards regarding gas emission. The changes that occurred in the legislation require the entity to admit a depreciation loss for the two vehicles whose services potential has decreased.

Amongst the internal sources [4] that can lead to identifying the depreciated assets, we can mention the following:

a) *"there is physical evidence of an asset's deterioration"*

***The physical deterioration of assets happens as a consequence of structural or construction deficiencies as well as other factors are impact to the level of services provided which register a significant decline in comparison to the initial services.***

✓ As a consequence of the flooding in the summer of 2007, in hospital X the medical equipment in radiology department has been strongly damaged and the

reparations that are necessary are not feasible from an economic point of view. The registered physical deterioration is a true clue of value loss.

✓ Identifying deficiencies in the resistance structure of a building part on the public patrimony of an administrative-territorial unit requires shutting it down, with consequences on the recoverable value and recognizing a depreciation loss.

b) *"significant long term changes with an adverse effect on the entity, in the way that the asset is used or in the way that it is expected to be used"*

***The service potential of the asset does not change, but it cannot be used like when it was set in use, respectively its life span is shorter than the initial estimations.***

✓ Although when it was set in use a building that belongs to a hospital unit was designed for medical activity, it was subsequently used as a storehouse. Since the asset is no longer used like in the beginning, it represents a clue of a possible value loss and it is necessary to model the recoverable value.

✓ For implementing an efficient computerized program the Romanian Broadcasting Company financed in 2007 a project that requires connecting all the computers in the entity to a main computer – requiring special conditions for phonic isolation and safety. After finalizing the investment it is found that the main computer functions under capacity because many applications were converted or made to operate on servers or PC platforms. The long term decreases of demand for the main computer's services are materialized in a significant change of the way in which the respective asset is used, which registers a depreciation.

c) *"a decision to stop the building of an asset which was registered previous to its completion or previous to bringing the asset in use condition"*

***The decision to cease construction before completing the asset does not allow it to provide the expected services, thus its existing potential cannot be capitalized.***

✓ After starting the construction work for a building designed for Alzheimer patients, it was found that the location is a nestling perimeter for an endangered species and the

construction is stopped. It can be considered that the unfinished asset is depreciated.

d) *"there is evidence from internal reporting which indicates that the service performance of an asset is or will be significantly weaker than what it was expected"*

*When an asset does not function as it was supposed to function or it was noticed that it has deteriorates over the years, a weaker performance than the initial estimations is a clue for a possible value loss.*

✓ The hospital unit Alfa owns an efficient equipment that requires significant annual maintenance costs. As a consequence of the financial crisis, insufficient sums were allotted through the budget, thus the equipment's performance is weaker than it has been expected. Although it is possible that the asset won't be depreciated, it is required to measure its recoverable value.

The previously mentioned situations are not the only criteria or clues according to which an asset could be depreciated. We can identify others that require the entity to determine the recoverable value of its assets.

#### **4. The recoverable service amount of a non – cash – generating asset**

IPSAS 21 adds and changes a number of definitions from IAS 36 in order for them to suite the public sector more adequately:

✓ *the recoverable service amount* of a non-cash-generating asset is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use;

✓ *an impairment loss* of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount;

✓ *value in use* of a non-cash-generating asset is the present value of the asset's remaining service potential.

The International Accounting Standards for the Public Sector indicates three possible methods of establishing the use value, as it follows [5]:

- ✓ depreciated replacement cost method,
- ✓ the rehabilitation cost method,
- ✓ the services unit method, since choosing the best method for evaluating the use value is the result of both data availability and nature depreciation.

#### **4.1. The depreciated replacement cost method**

According to this method, *the updated value of an asset's remaining services potential is determined to be the depreciated replacement cost of the asset.* The replacement cost of an asset is the cost of replacing the brut service potential of the asset from which you can deduce amortization precisely in order to reflect the respective asset in its use condition.

Example: The local council of Beta region decides to shut down the local school, built in 1995 for 190,000,000 RON, with an estimated life span of 40 years, as a consequence of lack of demand for the school services which reside from the relocation of the *săși* population, representing 90% of the village's total inhabitants. The school building is turned into a store house in 2001. Since the demographic tendency that affects demand for the school services is not expected to be reversed in the near future, the cost of replacing a store house with the same storage capacity as the school building is 68,000,000 RON. The building's fair value less the selling costs is considered difficult to establish. Is the school's building depreciated?

Historical cost	190.000.000 RON
Accumulated depreciation	28.500.000 RON
<i>The building's net acc. value</i>	<i>161.500.000 RON</i>
Replacement cost	68.000.000 RON
Accumulated depreciation	10.200.000 RON
<i>Depreciated replacement cost</i>	<i>57.800.000 RON</i>

The use value is given by the depreciated replacement cost. By comparing the depreciated replacement cost with the net accounting value we can calculate a value depreciation of 103,700,000 RON.

#### **4.2 The rehabilitation cost method**

This approach considers that *the updated value of the remaining services potential of an asset can be determined by subtracting the estimated rehabilitation cost of an asset from the current cost of replacing the remaining services potential before depreciation.* This way, the amortized current replacement cost is adjusted with the rehabilitation cost.

The current cost of replacing the remaining services potential of the asset is either the reproduction cost or the amortized

replacement cost of the asset before depreciation.

Returning to the above mentioned example, in 2001 a fire destroys the building's structure. For safety reasons, the building is shut down, in need of 20,000,000 RON reparations. Since the amortized replacement cost (undamaged state) is 57,800,000 RON, the service value is given by the difference between the two values: 37,800,000 RON.

#### 4.3 The services units' method

According to this approach *the updated value of the remaining services potential of an asset is determined by reducing the current cost of the remaining services potential before depreciation in order to comply with the reduced number of services units estimated for the asset that is currently depreciated.* The current cost of replacing the remaining services potential of the asset is either the reproduction cost or the amortized replacement cost of the asset before depreciation.

Example: In 2000 the analysis lab of hospital X acquired an efficient equipment for 8,000,000 RON, with a service life of 10 years. In 2005 there is evidence from internal reporting that an automated operation of the equipment does not function as predicted and as a consequence the annual production level is decreased by 30% for the remaining service years of the equipment. The replacement cost for a new equipment in 2005 is 10,000,000 RON.

The use value of the asset is determined with the following procedure:

Replacement cost	10,000,000
Accumulated amortization	5,000,000
Amortized replacement cost	5,000,000
Service value (70% ARC)	3,750,000

For establishing the use value the choice between the analysed methods is made according to the data availability and the depreciation nature, as it follows:

✓ the depreciations identified from the significant long term changes in the technological, legislative or governmental politics environment can be generally assessed by using the approach of amortized replacement cost through a method of unit services, as applicable;

✓ the depreciations identified from the significant long term changes, including the

ones identified on cessation or near cessation of demand, can be generally assessed by using the approach of the amortized replacement cost or the one for the services units, accordingly; and

✓ the depreciations identified from the physical deterioration are generally assessed by using the approach of the rehabilitation cost or through the method of the amortized replacement cost, accordingly.

Assessing the recoverable value of the non-cash-generating assets is a complex process that also requires modelling the information of the expert assessors, besides using professional accounting reasoning. Although the Romanian public accounting has lined up to all the international norms in form, it will take into account, for a loyal image reflection, both the current regulations and the accounting treatments suggested by the international standardizes.

Understanding the value depreciation phenomena requires, besides identifying the depreciated assets and measuring the recoverable value, recognizing the losses in accounting for the non-cash generating assets.

#### 5. Conclusions

Despite the fact that the title of IPSAS 21 is „Impairment of Non – Cash –Generating Assets”, the perception of the underlying principals of public sector accounting starts with the understanding that the factor that is being tested for impairment is the service potential and not the asset itself.

For those who feel uncomfortable with the fact that a „service generating unit” (equivalent to „cash generating unit” in IAS 36) was not included in IPSAS 21, we would like to remind that contrary to cash generating assets, for which a difficulty might arise in trying to attribute them a specific cash flow, for non-cash-generating assets the corresponding problem of attributing service potential to the individual asset dose not arise. On the contrary, the attribution of service potential to an asset is simpler.

Any accounting system, no matter how efficient, modern and converging with the International Accounting Standards for the Public Sector, will always be perfectible even if this is only due to the fact that economy

regarded both at a national and international level, is continuously transforming, subjected to new tendencies, forced to set new priorities, to answer some challenges that are more and more futuristic.

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## Aspects Regarding the Application of Lean Accounting in Taking the Managerial Decisions

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### Abstract

*The managerial decisions must be taken based on clear, concrete and usable information. The managerial activity involves correct and timely decision-making, this is only if the information based on which the managers act reflects the real activity of the company. This kind of information is provided by Lean Accounting, whose implementation within the company will increase the quality of the managerial decision. The article presents, in a comparative way, some situations where are emphasized the advantages of using Lean Accounting as basis for making decisions that lead to profit growth.*

**Key words:** Lean Accounting, Value Stream Costs, Managerial Decisions

**J.E.L. classification:** M19, M49

### 1. Introduction

In today's economy the price of a product has nothing to do with its cost but it is required by the market. That is why it is very important that the company knows the real cost of the production obtained in specific situations, cost which, compared with the price that the market is willing to accept, is the basis for managerial decisions.

The company's success depends on the correctness of the managerial decisions. Substantiating these decisions has to be based on reasoning that takes into consideration all factors that influence them.

In the given conditions, it has to be seen if the traditional cost calculation methods provide relevant information in decision making. The generally accepted answer is "no". [1], [2], [3], [4], [5]

Lean Accounting has the advantage to accurately reflect what happens, in financial

terms, within a company in different given situations, because the information presented eliminates some of the waste elements which are specific to traditional accounting systems. [3]

The success of using Lean Accounting within a company which implemented Lean thinking consists in the indicators used. So, the company's activity is reflected from an operational, useful and financial point of view, factors of whose relationship depends the achieving of objectives set. Based on these indicators, Lean Accounting provides a correct way of making appropriate decisions in situations like accepting additional orders or a make or buy decision.

The accounting has to be an instrument that ensures the fulfillment of company's objectives and that is why it is very important to be able to transform itself in order to cope with the changes that may appear and to reflect them as closely as possible. Lean Accounting ensures a proactive basis in providing the information for managerial decisions, which will be proved in the situations presented in this article.

### 2. The decision regarding an additional order

We take a case from footwear industry where a company receives an additional order of 1.000 pairs of footwear which cost 70 lei each.

In the case of applying the traditional accounting, the decision of accepting this additional order or not, will take into consideration the unitary cost of the product, as it follows:

Material cost	56,25 lei
Employee cost	12,50 lei
Overhead cost	6,875 lei
Total unit cost	<hr/> 75,625 lei

Based on this analysis, the manager's decision is to refuse the order because the price offered 70 lei/pair is lower than the product's manufacturing cost 75,625 lei/pair, and accepting the order would lead to a loss of 5,625 lei ( $\{1.000 \text{ pairs} \times [70 \text{ lei/pair} - 75,625 \text{ lei/pair}]\}$ )

In another analysis, based on relevant costs, the manager will take into consideration the fact that fix costs are irrelevant because they will be incurred even if the order will not be honored. So, in calculating the cost of manufacturing the 1.000 additional pairs it will be taken into consideration only the raw and used materials, the salaries of directly productive workers and the variable overhead cost. We will have:

Material cost	56,25 lei
Employee cost	12,50 lei
Variable overhead cost	<u>1,75 lei</u>
Total unit cost	70,50 lei

It can be seen that, even though the new cost calculated for the additional order is 70,5 lei/pair is lower than the one calculated previously 75,625 lei/pair, it is still higher than the offered price 70 lei/pair. So the manager's decision will be the same, to refuse the order because its acceptance will lead to a loss of 500 lei ( $\{1.000 \text{ pair} \times [70 \text{ lei/pair} - 70,5 \text{ lei/pair}]\}$ ).

Lean Accounting proposes Value Stream Costing as an analysis based on which the managerial decision should be made. Using this instrument in analysis, allows a new perspective, different from the traditional one. So, there are taken into consideration the sales and the costs of the entire value stream when calculating the profit. In this case, before accepting the additional order, the company produces 8.000 pairs/month which are sold at 87,5 lei/pair. We have:

Material costs	450.000 lei
Employee costs	100.000 lei
Machine costs	45.000 lei
Occupancy & other costs	<u>15.000 lei</u>
Total value stream costs	610.000 lei

Using Lean Accounting within a company involves the calculation of some indicators regarding the available capacity. The continuous improvement as a principle of Lean thinking leads to the reduction of

activities that do not create value and in this way facilitates the creation of available capacities.

The financial impact of Lean improvements depends on the use of this available capacity. [1]

In the example taken, the capacity indicators are presented as it follows:

Capacity	Employees	Machines
Productive	48%	56%
Non-Productive	28%	15%
Available	24%	29%

The question is if the company has the capacity of producing the 1.000 additional pairs using the employees and the existing production line. For this analysis will be used the operational indicators of Lean Accounting, but it is very easy to notice that, to a production of 8.000 pairs/month, the company has an available capacity of 24% in employees and 29% in machines, so there is enough available capacity to produce the additional order of 1.000 pairs. In case the company would honor the additional order, the capacity indicators would be:

Capacity	Employees	Machines
Productive	54%	63%
Non-Productive	28%	15%
Available	18%	22%

Because for the manufacturing of the additional order there is capacity in workforce and in machines, it follows that, the costs of this order will consist only in raw and used materials.

Because the cost of direct materials is 56,25 lei/pair, it follows that for the entire additional order of 1.000 pairs, the additional cost will be 56.250 lei.

Before honoring the order, the financial indicators for the monthly manufactured and sold production are:

Revenue	<u>700.000 lei</u>
Material costs	450.000 lei
Employee costs	100.000 lei
Machine costs	45.000 lei
Occupancy & other costs	<u>15.000 lei</u>
Total value stream costs	610.000 lei
Value stream profit	<u><b>90.000 lei</b></u>
	<b>12,86%</b>

In case the order will be honored, the financial indicators of the new production of 9.000 pairs (8.000 pairs the current production + 1.000 pairs the additional order) will be:

Revenue	770.000 lei
Material costs	506.250 lei
Employee costs	100.000 lei
Machine costs	45.000 lei
Occupancy & other costs	15.000 lei
Total value stream costs	<u>666.250 lei</u>
Value stream profit	<u><b>103.750 lei</b></u> <b>13,47%</b>

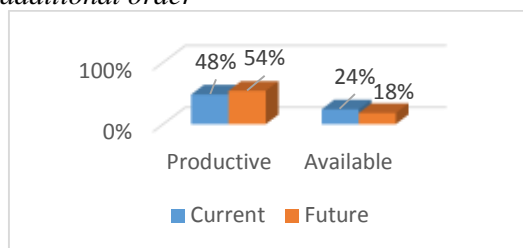
Look how using Lean Accounting in the analysis of the financial impact of accepting the additional order has revealed the fact that honoring it will be beneficial for the company as the profit increased by 13.750 lei, and in relative terms value stream profit margin increases by 0,61%.

The secret of obtaining a different result that the one in the case of applying traditional accounting methods lays in the indicators used.

Lean Accounting identifies the available capacity and exploits it by measuring the financial impact on the company.

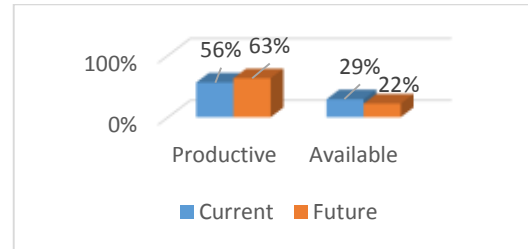
The available capacity has to be present in terms of employees (Figure no. 1) and in terms of machinery (Figure no. 2). For example, if there is available capacity in terms of machinery for accepting an additional order, but there isn't available capacity in terms of workforce, the company will need to have the employees work extra hours, or, if that isn't possible, hire more people which will lead to higher costs. So, it is to be seen if the profit obtained by honoring the order will cover those costs.

Figure no. 1. The available capacity in employees before and after honoring the additional order



Source: own processing

Figure no. 2. The available capacity in machinery before and after honoring the additional order



Source: own processing

We notice that, by using Lean Accounting, the manager will have a totally different opinion in regards to the results obtained by the company if he decides to accept the additional order. If, by using the traditional accounting, it was established a loss of 5.265 lei or of 500 lei, Lean Accounting reveals that accepting the additional order will determine a profit growth from 12,86% to 13,47%, so accepting the order in beneficial for the company.

### 3. Make or Buy Decision

An important decision that a manager has to take is to buy a certain piece needed in the manufacturing process or to produce it within the company.

We take the same example; for a company that manufactures footwear and obtains 8.000 pairs a month, the entire quantity will be sold for 87,5 lei/pair. The sole for the manufactured footwear is produced within the company. The company has the possibility to buy the soles from a supplier for 14 lei/pair.

In the traditional accounting, the analysis based on total cost will determine the cost of a pair of soles in case they are produced within the company as it follows:

Material cost	11,00 lei
Employee cost	2,50 lei
Overhead cost	<u>2,75 lei</u>
Total unit cost	<u>16,25 lei</u>

Because the unitary manufacturing cost of a pair of soles of 16,25 lei is considerably higher than the offer received from the supplier of 14 lei/pair, the manager will think about buying the soles than to produce them.

The analysis based on relevant costs will take into consideration only the variable costs

incurred and we have:

Material cost	11,00 lei
Employee cost	2,50 lei
Variable overhead cost	0,75 lei
Total unit cost	14,25 lei

In this case too, the unitary cost of manufacturing a pair of soles 14,25 lei is higher than the one of the supplier 14 lei, the manager being tempted to buy them instead of producing them within the company.

Let's see now what happens with the profit from Lean Accounting perspective. As we saw previously, for a production of 8.000 pairs, the selling price 87,5 lei/pair, the profit is of 90.000 lei (12,86%).

If the company will purchase the soles from suppliers, the material costs will increase by 112.000 (8.000 pairs x 14/pair), this being the price paid to suppliers for purchasing 8.000 pairs of soles needed. Also, material costs will decrease by 8.800 lei (8.000 pairs x 11 lei/pair), this being the price for the raw materials used for manufacturing the soles. The other costs are irrelevant because fixed expenses and employees' salaries are covered no matter if the company produces the soles or buys them. We have:

Revenue	700.000 lei
Material costs	474.000 lei
Employee costs	100.000 lei
Machine costs	45.000 lei
Occupancy & other costs	15.000 lei
Total value stream costs	634.000 lei
Value stream profit	66.000 lei
	9,43%

As it can be seen, purchasing the soles from a supplier, will lead to a profit decrease by 24.000 lei, up to 9,43%. In these conditions, the manager would rather produce the soles within the company.

If the company wouldn't have produced the soles before, and now has the possibility to do it, the analysis would have been made based on the available capacity and specialized employees. The existence of an available capacity in terms of employees qualified to produce soles, involved the same wage cost and a decision of manufacturing the soles within the company will be based on the fact that the total fix costs and materials is lower than the purchase price.

#### 4. Conclusions

Lean Accounting presents the product's real costs unlike the other cost calculation methods which are based on assumptions of cost allocation.

Lean Accounting uses the direct costs, easy to understand, without using complex calculation methods whose bushy and demanding information can be used only by specialists.

Lean Accounting doesn't use the individual cost of a product. In traditional methods, the cost is centered on the individual product and within Lean Accounting, the decision is made based on the real cost of value stream.

Lean Accounting is based on direct costs, doesn't imply the use of indirect costs whose distribution is hard to achieve, avoiding any mistakes which lead to wrong decisions.

Lean Accounting favors decision-making because the information provided is clear and simple [2].

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